STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

FIRST SESSION

ON

S.Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK EXCHANGES WITH RESPECT TO THE BUYING AND SELLING AND THE BORROWING AND LENDING OF LISTED SECURITIES

AND

S.Res. 56 and S.Res. 97

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RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROWING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY, ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER THE TAXING POWER OR OTHER FEDERAL POWERS

PART 9

Guardian Detroit Union Group

DECEMBER 19, 1933 to JANUARY 4, 1934

Printed for the use of the Committee on Banking and Currency

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1934

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Pt. 9-10

U. S. Senate

COMMITTEE ON BANKING AND CURRENCY

Sept. 6, 1934

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CONTENTS

PART 9

Page

Eubanks, W. A., Detroit, Mich 4434, 4445
Kanzler, Ernest, 2501 Iroquois Avenue, Detroit, Mich 4543
Lord, Robert O., Detroit, Mich 4203
4240, 4271, 4305, 4339, 4375, 4429, 4435, 4440, 4448, 4519
Stalker, John W., Grosse Pointe Shores, Mich 4405

EXHIBITS—GUARDIAN DETROIT UNION GROUP

[Italics indicate page on which exhibit was admitted into the record: roman type, exhibit printed]

1. Copy of the articles of association of the Guardian Detroit Group, Inc., *4205* 4268
1a. Chart "Organization of Guardian Detroit Union Group, Inc." 4207
2. Chart showing bank failures in the State of Michigan 4216
3. Pages 2, 3, and 4 of Annual Report of Guardian Detroit Union Group for 1929 4220
4. Photostatic copy of letter dated July 24, 1931, addressed to L. H. D. Baker, National Bank of Commerce, Union Guardian Building, Detroit, Mich 4227
5. Typewritten sheet purporting to be a copy of page 39 of minute book of Guardian Detroit Group, Inc 4251
6. Photostat of letter from Robert O. Lord to John N. Stalker, dated June 4, 1930 4252
7. Letter dated June 5, 1930, from John N. Stalker to Robert O. Lord 4253
8. Photostatic copy of memorandum addressed to Mr. Lord by Mr. Stalker under date of June 26, 1930 4257
9. Photostatic copy of letter dated Mar. 4, 1930, to Mr. Frank Brandon from Robert O. Lord 4259
10. Letter, Mar. 4, 1930, Lord to Stalker 4260
11. Letter, Mar. 4, 1930, Lord to Sanger 4263
12. Letter, Mar. 11, 1930, Sanger to Lord 4264
13. Letter, Mar. 13, 1930, Lord to Sanger 4265
14. Letter, Mar. 18, 1930, Sanger to Lord 4266
15. Letter, dated Aug. 24, 1929, addressed to Joseph H. Brewer by Robert O. Lord 4273
16. Letter, June 11, 1931, Maxwell to Reynolds 4286
17. Letter, Dec. 12, 1931, Reynolds to Patterson 4289
18. Letter, Sept. 18, 1929, Lord to Brewer 4290
19. Letter, Nov. 18, 1929, Lord to Brewer 4291, 4295
20. Letter, Nov. 21, 1929, Brewer to Lord 4292
21. Letter, Jan. 22, 1930, Lord to Brewer 4294
22. Memorandum dated Apr. 13, 1931, from Joseph H. Brewer to B. K. Patterson, together with attached letter dated Apr. 10, 1931, from Henry F. Quinn, national bank examiner, to Joseph H. Brewer, and also attached tabulation of loans and discounts and bonds and securities 4296
23. Photostatic copy of memorandum to A. A. F. Maxwell from F. M. Brandon dated Sept. 17, 1931 4306
24. Photostatic copy of letter addressed to B. F. Patterson from Henry F. Quinn dated Sept. 1, 1931 4307

	Page
25. Photostatic copy of intra-Group memorandum to F. M. Brandon, president City National Bank & Trust Co., Niles, from A. A. F. Maxwell, secretary Guardian Detroit Union Group, Inc., dated Sept. 24, 1931	4308
26. Intra-Group memorandum dated Sept. 28, 1931, from F. M. Brandon, president City National Bank & Trust Co., Niles, Mich., to A. A. F. Maxwell, secretary Guardian Detroit Union Group Inc	4309
27. Photostatic copy of intra-Group memorandum dated Sept. 29, 1931, to Frank M. Brandon, president City National Bank & Trust Co., Niles, from A. A. F. Maxwell, secretary Guardian Detroit Union Group, Inc	4309
28. A letter dated Oct. 8, 1931, from F. M. Brandon, president City National Bank & Trust Co. of Niles, Mich., to B. K. Patterson, executive vice president of the Detroit Union Group	4310
29. Memorandum addressed to Mr. Brandon by B. K. Patterson, under date of Oct. 12, 1931	4311
30. A letter dated Mar. 4, 1930, to Warren J. Rachow, president Union State Bank, Dearborn, Mich., by R. O. Lord	4315
31. A letter dated Mar. 7, 1930, to R. O. Lord, written by Warren J. Rachow, president Union State Bank, Dearborn, Mich	4316
32. Typewritten statement showing amounts of dividends declared by various bank units of the Group during the years 1929, 1930, 1931, and 1932, respectively, *4318*	4331
33. Typewritten statement referred to entitled "Guardian Detroit Union Group, Inc., Summary of Cash Dividends" *4318*	4331
34. Copy of proposed Annual Report of Guardian Detroit Union Group Inc., *4319*	4332
35. Photostatic copy of intra-group memorandum addressed by R. O. Lord to the directors of the Guardian Detroit Bank under date of Jan. 21, 1931, *4321*	4333
36. Annual report Guardian Detroit Union Group, Inc., Dec. 31, 1930	4324
37. Letter, Sept. 17, 1931, Walsh to Robertson	4347
38. Letter, Sept. 17, 1931, Walsh to Brandon	4349
39. Letter, Sept. 16, 1931, Brandon to Walsh	4352
40. Letter, Sept. 19, 1931, Robertson to Walsh	4356
41. Letter dated Sept. 18, 1931, from H. S. Reynolds to James L. Walsh	4358
42. Letter dated Dec. 31, 1930, from James L. Walsh to Herbert S. Reynolds	4361
43. Letter dated Jan. 5, 1931, from F. M. Brandon to James L. Walsh	4362
44. Letter dated Jan. 6, 1931, from James L. Walsh to Frank M. Brandon	4364
45. Photostat of telegram dated Dec. 30, 1930, from James L. Walsh to Herbert R. Wilkin	4366
46. Intra-Group memorandum dated Dec. 31, 1930, from James L. Walsh to H. R. Wilkin	4366
47. Photostatic copy of intra-Group memorandum dated Jan. 8, 1931, from F. M. Brandon to James L. Walsh	4373
48. Copy of certificate of deposit, Dec. 31, 1931	4376
49. Photostatic copies of ledger sheets of the account of the Union Industrial Trust & Savings Bank, Flint, Mich., on the books of the Guardian Detroit Bank	4377
50. Report of condition, Union Industrial Trust & Savings Bank, Flint, Mich., Dec. 31, 1931	4378
51. Annual Report, 1929, Guardian Detroit Union Group, Inc	4380
52. Letter, May 5, 1931, Morton to Lord	4381
53. Letter from James L. Walsh to Scott D. Carpenter, dated Aug. 4, 1931	4383
54. Photostatic reproduction of Annual Report of Guardian Detroit Union Group, Inc., for the year 1930, filed with the Michigan Securities Commission *4430*	4461
55. Photostatic reproduction of Annual Report of Guardian Detroit Union Group, Inc., for the year 1931, filed with the Michigan Securities Commission *4430*	4463
56. Photostatic copy of Annual Report for the year 1932 filed by the Guardian Detroit Union Group, Inc., with the Michigan Securities Commission *4430*	4468

Page
57. Photostatic copy of memorandum dated Dec. 18, 1931, addressed by Mr. Patterson to Messrs. Lord, Kanzler, Covington, and Walsh____ 4514
58. Letter dated Jan. 10, 1929, from Mr. Proctor to National Bank Examiner Boon____ 4518
59. A photostatic copy of a report made for the year 1929 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission____ 4521
60. A photostatic copy of a report made for the year 1930 by the Guardian Detroit Group, Inc., to the Michigan Securities Commission 4521____ ([1])
61. A photostatic copy of a report made for the year 1931 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission____ 4522
62. A photostatic copy of a report made for the year 1932 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission____ 4522
63. Kanzler notes, annual meeting of Stockholders, Guardian Detroit Union Group, Inc., Jan. 24, 1933____ 4545
64. Mimeographed copy of document addressed to the stockholders, Guardian Detroit Union Group, produced by the witness. 4572____ 4582

[1] Not printed because of length or for reasons given in text.

STOCK EXCHANGE PRACTICES

TUESDAY, DECEMBER 19, 1933

UNITED STATES SENATE,
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on Thursday, December 7, 1933, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Couzens, Townsend, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, statistician to the committee.

The CHAIRMAN. The subcommittee will come to order, please. You may proceed, Mr. Pecora.

Mr. PECORA. Mr. Lord, will you take the stand?

The CHAIRMAN. Please stand, hold up your right hand and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. LORD. I do.

TESTIMONY OF ROBERT O. LORD, DETROIT, MICH.

Mr. PECORA. Mr. Lord, will you give your full name and residence and business addresses to the committee reporter?

Mr. LORD. Robert O. Lord, 17 McKinley Place, Grosse Pointe Farms; business address, Penobscot Building, Detroit, Mich.

Mr. PECORA. What is your business, occupation, or profession?

Mr. LORD. Nothing at the present time.

Mr. PECORA. What was it?

Mr. LORD. Banker.

Mr. PECORA. With what banking institution or organization were you last affiliated or connected?

Mr. LORD. My last connection was as president of the Guardian National Bank of Commerce.

Mr. PECORA. Where was that bank situated?

Mr. LORD. Detroit, Mich.

Mr. PECORA. When did you become president of it?

Mr. LORD. I became president of the predecessor bank, the Guardian Detroit Bank, in June of 1927, when that bank was opened.

Mr. PECORA. Had you for a number of years prior to that time been identified actively with banking?

Mr. LORD. From August of 1906 until May of 1927 I was connected with the Harris Trust & Savings Bank of Chicago, leaving it as vice president to go to that bank.

Mr. PECORA. When did you sever your connection with the Harris Trust & Savings Bank of Chicago?

Mr. LORD. The last of May 1927.

Mr. PECORA. Where did you go from the Harris Trust & Savings Bank?

Mr. LORD. Direct to Detroit.

Mr. PECORA. With this Bank of Commerce?

Mr. LORD. With the Guardian Detroit Bank, at the time when it was organized.

Senator COUZENS. It was a State at that time, was it not?

Mr. LORD. It was a State bank then, Senator Couzens.

Mr. PECORA. Do you know of an organization or corporation called the Detroit—no; I mean the Guardian Detroit Union Group, Inc.?

Mr. LORD. Yes, sir.

Mr. PECORA. Were you identified with that organization?

Mr. LORD. I was president and a director.

Mr. PECORA. When did you become president of the Guardian Detroit Union Group, Inc.?

Mr. LORD. I became president of the Guardian Detroit Group, Inc., which was the same corporation as the one of which the name was finally changed to Guardian Detroit Union Group, Inc., in the early summer of 1929, when the group company was organized.

Mr. PECORA. What was the nature or form of that corporation, Mr. Lord?

Mr. LORD. I am not a lawyer, Mr. Pecora, but as I understand, the corporation was organized under the general corporation laws of the State of Michigan. In other words, it was a Michigan corporation.

Mr. PECORA. As a holding company?

Mr. LORD. As a holding company.

Mr. PECORA. What kind of securities did it acquire and hold in its portfolio?

Mr. LORD. Very largely the stock of banking and trust company institutions.

Mr. PECORA. Were those banking and trust company institutions located exclusively in the State of Michigan?

Mr. LORD. Yes, sir.

Mr. PECORA. Where was the principal office or place of business of the Guardian Detroit Group, Inc.?

Mr. LORD. In the Penobscot Building in Detroit.

Mr. PECORA. Did you become the president of that organization at its inception?

Mr. LORD. Yes, sir.

Mr. PECORA. And also a director?

Mr. LORD. Yes, sir.

Mr. PECORA. What was the date of the incorporation of that company?

Mr. LORD. I only have the month here, May of 1929. I cannot tell you the exact day of the month.

Mr. PECORA. That was May 9, 1929, was it not?

Mr. LORD. I think that is correct.

Mr. PECORA. I show you what purports to be a copy of the articles of association of the Guardian Detroit Group, Inc. Will you kindly look at it and tell me if you recognize it to be a true and correct copy of such articles?

Mr. LORD (after looking over the paper cursorily). I would think so, Mr. Pecora.

Mr. PECORA. Mr. Chairman, I offer it in evidence, and——

Mr. LORD (interposing). Mr. Pecora, I should say that I have not compared it with the papers, but I think so.

Mr. PECORA. Mr. Chairman, I offer it in evidence, and ask that it may be made a part of the record.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(The articles of incorporation of the Guardian Detroit Group, Inc., of May 9, 1929, were marked "Committee Exhibit No. 1, Dec. 19, 1933", and will be found at the end of the day's proceedings.)

Mr. PECORA. I won't read the exhibit in its entirety, but I should like to read for the information of the subcommittee the following provision thereof, known as article 3:

> The purpose or purposes of this corporation are as follows: To acquire, own, hold, dispose of, and deal in stocks, bonds, and other evidences of indebtedness, and securities, including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers, and privileges of individual owner thereof, including the right to vote the same and to execute proxies therefor.

Now, subsequent to the incorporation of the Guardian Detroit Group, Inc., was its corporate title or name changed to the Guardian Detroit Union Group, Inc.?

Mr. LORD. It was, sir.

Mr. PECORA. Do you recall when that occurred?

Mr. LORD. My recollection is that it was in December, or the latter part of November, of 1929.

Mr. PECORA. Thereafter was there a merger with another holding company known as the Union Commerce Corporation?

Mr. LORD. Yes, sir.

Mr. PECORA. When did that merger take place?

Mr. LORD. In the early winter of 1929.

Mr. PECORA. That took place on December 16, 1929, did it not?

Mr. LORD. I believe the merger was declared operative about that date.

Mr. PECORA. What kind of corporation was the Union Commerce Corporation at the time when it was merged with the Guardian Detroit Union Group, Inc.?

Mr. LORD. I have not a copy of their articles, but I would say it was the same kind of corporation.

Mr. PECORA. That is, it was a holding company organized especially for the purpose of acquiring, owning, and holding securities of banking institutions, was it not?

Mr. LORD. I believe so; yes, sir.

Mr. PECORA. And their affiliates?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, upon the merger of those two holding companies, under what name did they continue to operate as one company?

Mr. LORD. The Guardian Detroit Union Group, Inc.

Mr. PECORA. Now, Mr. Lord, would you be good enough to look at this chart that is before you, entitled "Organization of Guardian Detroit Union Group, Inc.", and tell the subcommittee if in your opinion that chart correctly represents the structure known now as the Guardian Detroit Union Group, Inc., with the various units that enter into that holding company or are represented in its stock acquisitions?

Mr. LORD. Mr. Pecora, without checking every corporation shown on that chart I could not say that it was absolutely correct. I have seen the chart, and in general I should say it is correct. There are, however, I think some letterings in the chart that show discrepancies as of the present time and that should be checked. For instance, the Flint Bank nas been reopened on a partial basis.

Mr. PECORA. Can you point out whatever inaccuracies appear on this chart?

Mr. LORD. The only one that I notice at the moment is that there is no securities company listed up there in connection with the First National Bank of Kalamazoo. That securities company many months ago was liquidated, and that is possibly the reason why you left it off. You will see in the second line to the left the First National Bank & Trust Company of Kalamazoo, and——

Mr. PECORA (interposing). Yes; I see it. You mean by that, that at the time of the acquisition of the First National Bank & Trust Co. of Kalamazoo by the Guardian Detroit Group, Inc., a securities affiliate connected with the First National Bank & Trust Co. of Kalamazoo was also acquired?

Mr. LORD. That is my recollection.

Mr. PECORA. And that affiliate does not appear on this chart.

Mr. LORD. It does not appear on the chart.

Mr. PECORA. When did that affiliate cease to operate?

Mr. LORD. I cannot answer that question, but a good many months ago.

Mr. PECORA. And the fact that it had so ceased to operate is the reason why it does not appear on this chart, I take it.

Mr. LORD. I should think so.

Mr. PECORA. Are there any other items that you would like to refer to by way of correction on that chart?

Mr. LORD. Not offhand; I do not see anything offhand, Mr. Pecora.

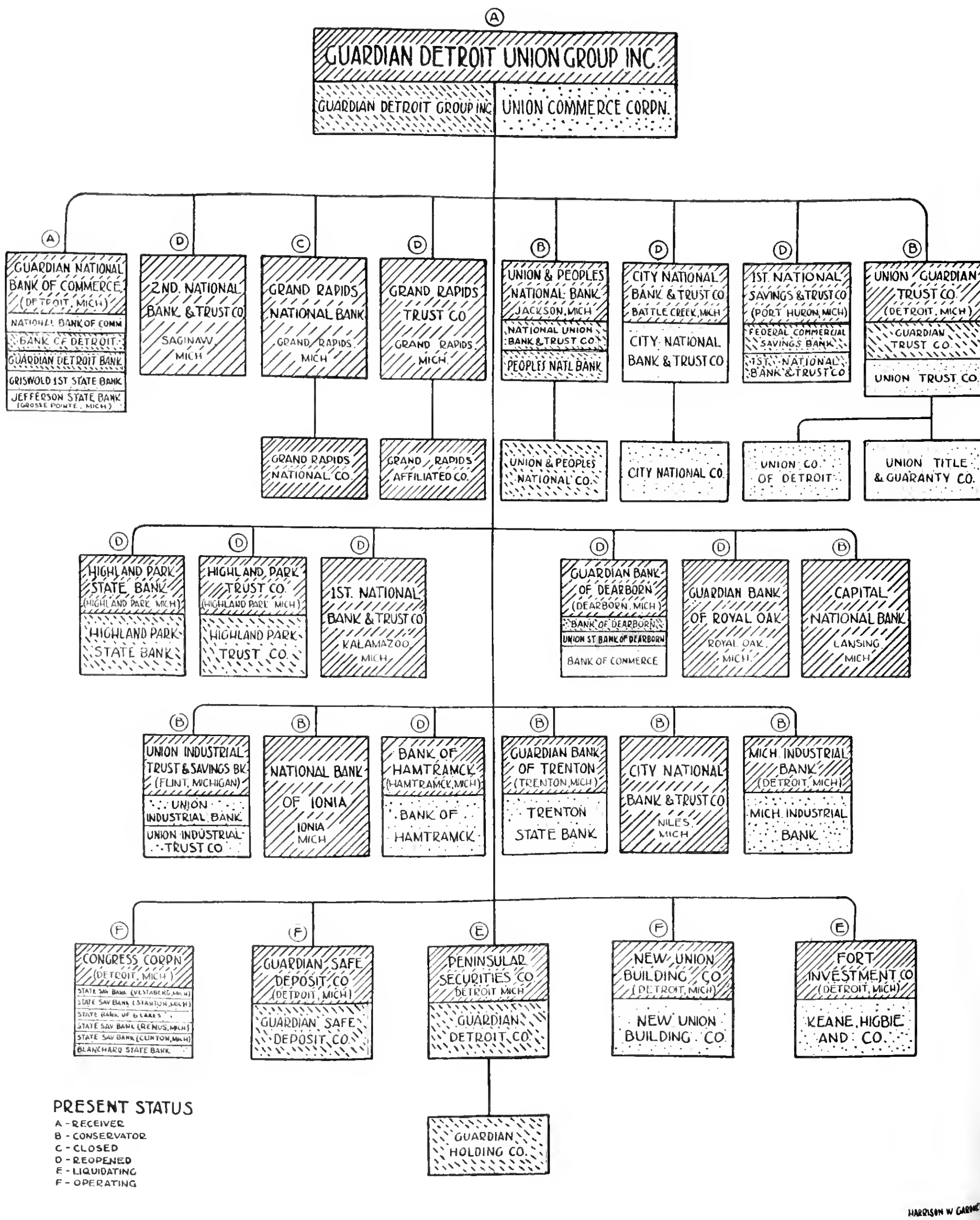
Mr. PECORA. Now, according to this chart the Guardian Detroit Union Group, Inc., which is the top organization, is made up of a merger of the Guardian Detroit Group, Inc., and the Union Commerce Corporation, two predecessor holding companies, isn't that a fact?

Mr. LORD. That is correct.

Mr. PECORA. And the various banking institutions——

Mr. LORD (interposing). Mr. Pecora, I would not say that the Guardian Detroit was a predecessor company, because it was the same corporation as I understand it as the Guardian Detroit Union Group, Inc., after the name was changed.

ORGANIZATION OF GUARDIAN DETROIT UNION GROUP, INC.



Mr. PECORA. Yes. Now, those two holding companies had been merged into the Guardian Detroit Union Group, Inc., on December 16, 1929, and owned, controlled, or acquired at various times the various banking institutions that are designated and shown on this chart, isn't that a fact?

Mr. LORD. They owned the shares of those banking institutions, with the exception of the qualifying shares of directors, and in some cases a small percentage or minority stockholding.

Mr. PECORA. Now, on this chart also appear various affiliates that, in turn, had been organized or created and were wholly owned subsidiaries of the various banking units to which they are annexed on this chart.

Mr. LORD. I believe so. Mr. Pecora, I have prepared, and if I may have the forbearance of this committee, it seems to me that if I were to read a statement, which is not very long, it would clarify the minds of the members of this committee in giving something about the history of the matter.

Mr. PECORA. About the organization of the constituent units of this situation?

Mr. LORD. Yes, sir.

Mr. PECORA. Have you a copy that I may have?

Mr. LORD. Yes, sir.

Mr. PECORA. I should like to look at it as you go along.

Mr. LORD. With your permission may I read it?

Mr. PECORA. Will you just let me have a copy so I may follow your reading of it?

Mr. LORD. Certainly.

Mr. PECORA. And I should like to state that we are having a photographic reproduction made of this chart. I mean the chart to which the witness' attention has been called, and it will be on a smaller scale, and I propose then to make it a part of the formal record here.

The CHAIRMAN. In regard to that matter, Mr. Pecora, as you probably know, we have to have regard to the rules of the Government Printing Office. I suppose you will get it up so that we can have it reproduced there.

Mr. PECORA. We will have inquiries made to enable us to ascertain just what sort of reproduction we will have to make.

The CHAIRMAN. They are not equipped generally to insert illustrations. We will have to go into that with them in order to find out what their requirements are. And, of course, the Government Printing Office cannot show these colors that appear on the chart.

Mr. PECORA. I am sure that it is so prepared that what appears on the chart will be clear in the reproduction by the Government Printing Office.

The CHAIRMAN. All right.

(The chart referred to is reproduced herewith as Committee Exhibit No. 1-A, December 19, 1933.)

Mr. LORD. Shall I now proceed?

Mr. PECORA. Do you now want to read your statement concerning the organization of this holding company?

Mr. LORD. Yes, and——

Mr. PECORA (interposing). You may go ahead.

Mr. Lord. This statement will contain some history of the acquisition of the stock of these banks and trust companies, and I think will enable the committee to follow the matter more clearly.

The Chairman. May I ask, first, what proportion of the banks in Detroit were involved in this set-up?

Mr. Lord. Senator Fletcher, at the time of the bank holiday there were only 4 banks remaining in Detroit, 1 of them being the Guardian National Bank of Commerce, which was our institution, and the other 3 were the First National Bank, the Detroit Savings Bank, and the Commonwealth Commercial, a State bank.

Senator Couzens. Then there was a little savings bank.

Mr. Lord. And there was the Morris Plan Bank. And there was the United Savings Bank, which was not a member of the clearing house.

The Chairman. Do you mean those were the only banks that opened after the bank holiday?

Mr. Lord. No; those were the only banks in existence before the bank holiday.

The Chairman. Oh! Before the bank holiday?

Mr. Lord. There were only 4 banks in Detroit then, including, of course, the 2 I have just mentioned, the Morris Plan Bank and the United Savings Bank, which makes 6.

The Chairman. Are they all included here?

Mr. Lord. No, sir. And we have only one bank in Detroit now.

Mr. Pecora. In order to get that clear let me ask you: The most of the banks shown on this chart as combined in the organization of the Guardian Detroit Union Group, Inc., were located outside of the city of Detroit, but all within the State of Michigan; is that so?

Mr. Lord. Yes, sir. Now, this statement is addressed to the chairman of the committee.

The Chairman. You may proceed with your statement.

Mr. Lord. As I understand it, and as emphasized to me by representatives of this committee in Detroit, the principal purpose of the investigation into the Detroit banking situation is to obtain information which will serve to suggest banking legislation either in addition to or revising existing laws to strengthen the banking structure of this country, to aid a recovery in business, and at the same time to prevent a repetition of the mistakes and excesses which occurred during the so-called "speculative era" that ended in the late fall of 1929. I am, of course, glad to be helpful in any possible way.

To go into every minute detail of the history, organization, and growth of the Guardian Detroit Union Group, Inc., would require an unnecessary amount of the time of this committee. It would seem to me, however, that to give the committee the proper understanding of the background of this situation it would be helpful to bring out something of the growth of the city of Detroit and to tell briefly of the history of the Guardian Detroit Union Group, Inc.

The Chairman. Mr. Lord, will you sit a little closer to the microphone so your voice may be heard?

Mr. Lord. Certainly.

Mr. Pecora. And will you read a little more slowly so that the voice reproducer may carry satisfactorily?

Mr. Lord. As is well known, the effect of the growth of the automotive industry was a tremendous and rapid increase in the population of Detroit and the so-called "Detroit metropolitan area." In 1900 Detroit, according to the United States census, had a population of 285,704. In 1930 this had increased to 1,568,602. Similar substantial increases were also shown by other communities in the State of Michigan, notably Grand Rapids, which increased from 87,565 to 186,592 in the 30-year period; Lansing from 16,485 to 78,397; Flint from 13,103 to 156,492; Dearborn from 844 to 50,358; Highland Park from 427 to 52,959; Royal Oak from 468 to 22,904.

Economically, Detroit occupies a position different than any city of comparable size in the United States in that on a dollar and cents basis it probably consumes less of its own products than any other city. Detroit's prosperity is closely linked, not only with the general prosperity of the United States but also of the entire world. Bank closings in any city or section of the country, floods, famine, crop failures, or other local disasters are in turn reflected directly in the output of motor cars and in the employment of factory workers in Detroit.

Generally speaking, it may be stated that the rapid growth of these communities was largely, if not entirely, due to the development of the automotive industry and the growth of the companies supplying materials to this industry. During this period manufacturing—and particularly that of the motor industry—so absorbed the attention and energy of Detroiters that banking facilities did not keep pace with the needs of the growing city. Detroit found itself dependent financially to a great extent on outside cities, and even up to a few years ago, while it ranked fourth in population and manufactured products, it ranked eighth or ninth in banking resources.

In view of this situation, in June 1927 there was organized under the banking laws of the State of Michigan the Guardian Detroit Bank. That was originally the State bank that Senator Couzens spoke about. Under the plan and subscription agreement there was sold unified stock. Each subscriber to stock in Guardian Detroit Bank at the same time subscribed for an equal number of shares of Guardian Detroit Co., an investment affiliate, and for one fifth of the number of shares in Guardian Trust Co., a fiduciary institution which had been organized under the banking laws of the State about 2 years previously. The unified stock plan was not new as the purported advantages of having a group of institutions with identical ownership and rendering complete financial service had been recognized elsewhere. Regardless of the lesson since learned that banks and trust companies should not be identified directly or indirectly with the general securities business, the contention was held at that time by many of our leading bankers that this was a proper form of service to be rendered by banking institutions. That this principle was then considered a proper one is further shown by the provisions of the McFadden Act which specifically authorized banks themselves—that is, national banks—to enter into the business of buying and selling investment securities. There were thus created three independent corporations owned by the same stockholders in no way subsidiary to each other.

It was provided that none of the stock of the bank, the trust company, or the securities company should be acquired or transferred except in connection with the acquisition or transfer of a proportionate amount of stock of each of the other two companies, so that each stockholder would at all times own the same percentage of the stock of any one of the same companies as he owned of the stock of each of the other two companies.

The city of Detroit, as stated, was primarily dependent upon the automotive industry and various estimates placed the preponderance of this industry at from 50 percent to 75 percent of the total industry of the city. Citizens of Detroit, drawn not only from the motor industry but from other manufacturing industries, merchandising, construction, transportation, publishing, real estate, and the professions, were identified with the formation of Detroit's first group of related institutions equipped to transact every kind of banking, trust, and investment business for individuals and corporations. Included among these men were the following individuals, not only well known locally but in most cases of national reputation:

Ralph H. Booth, president Booth Publishing Co.

Roy D. Chapin, chairman of the board, Hudson Motor Car Co.

Howard E. Coffin, president National Aviation Corporation.

George R. Fink, president Michigan Steel Corporation.

Fred J. Fisher, vice president, General Motors Corporation.

Edsel B. Ford, president, Ford Motor Co.

Albert Kahn, architect.

Ernest Kanzler, now president Universal Credit Corporation.

Alvan Macauley, president Packard Motor Car Co.

W. Ledyard Mitchell, vice president Chrysler Corporation.

Charles S. Mott, vice president General Motors Corporation.

Fred T. Murphy, trustee Murphy family trusts, also a trustee of Yale University.

Alger Sheldon, president Shelden Land Co.

From the above list it will be seen that there were upon the boards of one or more of the Guardian institutions individuals who were identified with an aggregation of motor companies representing probably well over 75 percent of the volume of the industry upon which it is estimated 10 percent of the population of this country depends and which is the largest single purchaser in the world of cotton, hardwood lumber, nickel, upholstery leather, polished plate glass, crude rubber, gasoline and oil, and an industry which for years has, generally speaking, paid the highest wages. It was, therefore, natural that the Guardian should become known throughout the country as an "automobile" bank.

Under this coordinated management these three institutions, which came to be known popularly as "the Guardian Group", grew and prospered so that within 2 years their aggregate resources amounted to approximately $78,000,000, exclusive of the figures of the Guardian Detroit Co., the securities company.

In the early summer of 1929, in order to provide, among other things, an increase in capital of the securities company without at the same time increasing the capital of the bank or the trust company, neither of which institutions was in need of additional capital,

there was organized the Guardian Detroit Group, Inc.; that is the one shown in yellow at the top. The additional capital amounted to $3,694,500 and was raised $747,000 through the acquisition of the entire capital stock of the R. O. L. Co. and $2,947,500 by the stockholders of the Guardian Detroit Group subscribing to 32,750 shares at $90 per share. Of this additional capital $3,250,000 went to increase the capital of the securities company to $5,000,000 and the balance of $444,500 remained with the Group Co. as working capital.

At or shortly after its organization the Group Corporation acquired all except directors' qualifying shares of the Highland Park State Bank and the Highland Park Trust Co. The city of Highland Park, although entirely surrounded by the limits of the city of Detroit, and although in effect an integral part of the economic and business district of Detroit, has continued to maintain its separate corporate identity. The same is true also of the city of Hamtramck.

The officers and directors of the Highland Park institutions felt that it would be distinctly advantageous to effect a closer working arrangement with a large downtown bank. At that time the Highland Park State Bank, in addition to its main office, had seven branches within the corporate limits of Highland Park. As you may know, branch banking within the corporate limits of the municipalities in which a bank was located had been permitted in Michigan for many years, one of the larger Detroit banks having upward of 150 branches in Detroit.

The Guardian Detroit Group, Inc., was organized in May 1929, under the provisions of the general corporation laws Act 84, Public Acts of 1921, as amended, for the following purposes:

To acquire, own, hold, dispose of, and deal in stocks, bonds, and other evidences of indebtedness and securities, including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereto all rights, powers, and privileges of individual owners thereof, including the right to vote the same and to execute proxies therefor.

It might be here stated that the general idea of acquiring the shares of banking institutions located throughout the State was to have an association with a number of strong banks in different sections of the State, banks a part of whose business had flowed to New York and Chicago and which could be handled just as well or better through strong Michigan banking institutions, thus retaining that business within the State. Through this association these banks could more capably handle the business of their own local and out-of-State clients, could supply more complete credit information, and through contacts of other unit banks in the Group could aid their clients in the development of the clients' own business. It was thought that such an association would naturally attract to the various local units a substantial amount of desirable business.

The Group Corporation had but one class of capital stock of $20 par value; 2,500,000 shares were finally authorized, of which there were finally issued and outstanding 1,544,844 shares. The issuance of these shares was in all cases validated by the Michigan Securities Commission.

Under the original articles of association or charter of Guardian Detroit Group, Inc., the company could, upon the affirmative vote of three fourths of its board of directors, issue and dispose of unissued

or increased stock of the corporation for the purpose of acquiring stock of banks or trust companies without offering to the stockholders of the corporation for subscription the stock to be so disposed of.

In accordance with these provisions of the charter, the Guardian Detroit Group, Inc., acquired all or substantially all of the capital stock, except directors' qualifying shares, of the following institutions: Guardian Detroit Bank, Detroit, Mich.; Guardian Trust Co. of Detroit, Mich.; Guardian Detroit Co., Detroit, Mich.; Highland Park State Bank, Higland Park, Mich.; Highland Park Trust Co., Highland Park, Mich.; Bank of Dearborn, Dearborn, Mich.; National Union Bank & Trust Co., Jackson, Mich.; Federal Commercial & Savings Bank, Port Huron, Mich.; First National Bank & Trust Co., Port Huron, Mich.; Bank of Detroit, Detroit, Mich.

While Guardian Detroit Group, Inc., was negotiating with and acquiring stock of the above-listed institutions, another company called the Union Commerce Corporation of Detroit, Mich., had acquired or were acquiring all or substantially all of the capital stock, except directors' qualifying shares, of the following institutions:

National Bank of Commerce, Detroit, Mich.

Union Trust Co., Detroit, Mich.

Union Co., Detroit, Mich.

Michigan Industrial Bank, Detroit, Mich.

Union State Bank of Dearborn, Mich.

Bank of Commerce of Dearborn, Mich.

Jefferson Savings Bank, Grosse Pointe, Mich.

Union Joint Stock Land Bank, Detroit, Mich.

Ohio-Pennsylvania Joint Stock Land Bank, Cleveland, Ohio.

Mr. Pecora, that is the only corporation domiciled outside of the State. It was later sold, as you know.

City National Bank & Trust Co., Battle Creek, Mich.

Keene, Higbie & Co., Detroit, Mich.

Union Industrial Bank and Union Industrial Trust Co., Flint, Mich.

Union Commerce Corporation had also acquired through exchange of its stock an approximate 40 percent interest in seven small banks located entirely in agricultural communities. In two other cases a 58-percent and a 78-percent interest was acquired.

Mr. Pecora. May I interrupt your reading of your statement to ask you if you can give at this place in the record the names of those seven small banks?

Mr. Lord. State Savings Bank, Vestaburg, Mich.; State Savings Bank, Stanton, Mich.; State Bank of Six Lakes; State Savings Bank, Remus; State Savings Bank, Clinton; and Lansing State Bank. That is six, and I believe the other was the Thompson Savings Bank, of Hudson, that was afterward sold back to the original owners, Mr. Pecora.

The Chairman. Were these institutions all acquired by stock arrangements?

Mr. Lord. Exchange of stock.

The Chairman. And no cash?

Mr. Lord. Yes. That is, so far as the Guardian was concerned. I think in one or two cases there was some stock purchased back from the owners in the case of the Union Commerce Corporation. I haven't the record on that.

Early in September of 1929 representatives of Guardian Detroit Group, Inc., and Union Commerce Corporation discussed the possible advantages which might arise from a merger of the two companies. The discussion pointed out manifest benefits, and, accordingly, a proposed plan and agreement was drawn up providing for the acquisition of the stock of Union Commerce Corporation by Guardian Detroit Group, Inc., through exchange of shares on a share-for-share basis after declaration of a 20 percent stock dividend by Guardian Detroit Group, Inc.

On December 16—or 17—Mr. Pecora and I differ in the date. We will say on December 17, 1929, the plan was declared operative, the title of Guardian Detroit Group, Inc., thereupon being changed to Guardian Detroit Union Group, Inc., which is its title today. Through this merger the Group Co. acquired ownership of stock in the financial institutions and other corporations referred to in the preceding paragraphs.

Subsequently, Guardian Detroit Union Group, Inc., acquired by exchange of stock all or substantially all of the stock, except directors' qualifying shares, of the following institutions:

Peoples National Bank of Jackson, Mich.
City National Bank & Trust Co., Niles, Mich.
Capital National Bank of Lansing, Mich.
Grand Rapids National Bank, Grand Rapids, Mich.
First National Bank & Trust Co., Kalamazoo, Mich.
Grand Rapids Trust Co., Grand Rapids, Mich.
Second National Bank & Trust Co., Saginaw, Mich.
National Bank of Ionia, Ionia, Mich.

In figuring the basis of exchange of stock of the Group Co. for that of the banks or trust companies acquired, it may be stated that in general the method was to reduce to a parity of actual value both the stock of the Group Co. and the stock of the bank to be acquired; and earnings of both institutions were also reduced to a parity—both factors being given due consideration in arriving at a basis satisfactory to both parties at interest.

Actual values were determined by an examination of the assets of the bank with which negotiations were under way; and/or the examination reports of these banks by the National or State banking authorities; and the bank, through its representatives, in turn, was afforded an opportunity to satisfy itself as to the value of the shares of the Group Co.

From its inception Guardian Detroit Group and, inturn, Guardian Detroit Union Group, endeavored to preserve the local management and to follow the policy of developing the standing and prestige of that management, of the local institutions and placed the responsibility of such management upon the local boards of directors and local officers.

Without taking the time of this committee to read the minutes of the Group Corporation, I would call your particular attention to the proceedings of a meeting of the board held December 23, 1929, at which the basic policies of the corporation were clearly and definitely set forth. Article VI of the bylaws of the Group Co. provided:

> Whenever at any meeting of the stockholders of a bank or trust company of which corporation shall at the time own 75 percent or more of the outstanding

stock, an election of such board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 percent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof.

This policy was adhered to. The selection of directors in the unit institutions was left to the unit directors who had previously been in charge of these institutions, and such changes as occurred after the acquisition of the stock of the unit institution by the Group Co. were very largely on account of death or an account of resignation for some other reason.

To further carry out these policies, the board of directors of Guardian Detroit Union Group, Inc., adopted the following resolution:

Resolved, That credit based upon the deposits in a local bank, which is a unit member of Guardian Detroit Union Group, Inc., shall be controlled wholly by the board of directors and the officers of the local unit bank.

The officers of each unit institution in the Group were responsible directly to the board of directors of their own institution.

The Group Co. performed the following useful functions for the local institutions without in any way violating the basic policy of encouraging local management to run their own banks, namely:

(*a*) Acting as a clearing house for information bearing upon policies, practices, and results obtained by the various member unit institutions.

(*b*) Systematically making available to all units the practice of the best with a view of enabling all to reach the highest standards of operations and resultant profit.

(*c*) Providing capable supervision in connection with building construction and management.

(*d*) Coordinating business development activities.

(*e*) Purchasing standard equipment and supplies in quantity.

(*f*) Providing an independent examining force, in no way responsible for the condition which its examination discloses, to supplement the work of the board of directors of a local unit in connection with the examining responsibilities imposed by statute.

(*g*) Provding investment counsel and advice, together with statistical data and information on investments which the local institution, on account of its size, could not afford to provide for itself.

(*h*) Where local industries required credit beyond the loaning capacity of the local unit, the excess amount was offered to and frequently taken by other banking units in the group, thus obviating the necessity of these industries going outside the State for their credit accommodation.

In brief, it was the principal function of the Group Co. to act purely in an advisory capacity and as any stockholder would act in an institution where his funds were invested.

Admittedly, the institutions in the Guardian Detroit Union Group made many mistakes; but, to the best of my personal knowledge, mistakes of judgment. Loans that were well secured at the time made, suffered losses due in large measure to the velocity of the deflation. This situation occurred in most banks throughout the country necessitating banks in the United States charging down hundreds of millions of dollars of assets which under any reasonably normal conditions could and would have liquidated in full.

It might be of interest to this committee to know some of the many helpful and constructive things which the Group Co. accomplished. During the period from 1930 to 1933 the Group Co. purchased from unit banks and trust companies nearly $8,400,000 of

slow or undesirable assets, in some cases in an amount almost equal to the capital structure of the unit institution. The amounts were as follows, as reported to me:

Union Guardian Trust Co	$7,500,000.00
City National Bank & Trust Co., Battle Creek	198,068.93
National Bank of Iona	149,468.90
City National Bank & Trust Co., Niles	148,491.00
Guardian Bank of Dearborn	130,646.79
Guardian Bank of Grosse Pointe	99,590.18
Grand Rapids National Bank	92,353.04
Guardian Bank of Trenton	78,090.90

Thus, in the case of the Union Trust Co., the Group Co. replaced the entire capital and surplus of that institution.

Senator COUZENS. May I interrupt you at that point: Where did you get the money to purchase those securities, from the dividends that you got from the paying institutions?

Mr. LORD. Senator, I think it is very difficult to earmark money. I would say it was from the borrowings of the Group Co., not from the dividends.

Senator COUZENS. I do not ask you to earmark the money, but did you relieve these units of these slow and doubtful assets by dividends received from the units?

Mr. LORD. Received from the units? No, sir; by borrowing money by the Group Co.

Senator COUZENS. Was that the only source that you had?

Mr. LORD. That was the source that was used. The situation in Michigan during the years 1931 and 1932 was probably more acute as regards bank failures than in any other State in the Union. In cities where our own units were located many failures occurred in spite of every aid to these competing banks that we could and did render. I have here a map of the State, prepared early in 1933, showing the bank failures throughout the State, and I would like to show it to this committee.

It is rather an interesting picture. [Exhibiting map.] There are 195 banks pictured there. The towns that are starred were left with no banking facilities whatever. In cases where they are marked with a number 2 or 3 it means 2 or 3 banks in the community have failed. That is in the period from January 1, 1931, to February 25, I think it was, 1933.

Mr. PECORA. Have you any reproductions of those?

Mr. LORD. I have some small ones, Mr. Pecora. They are not very clear.

Mr. PECORA. Would you let the committee have as many copies as you can gather?

Mr. LORD. They may have them all [handing copies].

Mr. PECORA. I think we might offer this chart produced by the witness in evidence.

Senator COUZENS. Following up my earlier inquiry, Mr. Lord, where did you borrow this money from that you used to relieve these banks of their slow assets?

Mr. LORD. Senator, most of that money was borrowed from New York and Chicago banks, practically all of it, and I cover it a little later. May I read it, and if I have not answered the question I will be glad to?

Senator COUZENS. All right.

The CHAIRMAN. Let the chart be admitted and entered on the record.

(Chart presented by Mr. Lord showing bank failures in the State of Michigan from Jan. 1, 1931, to Feb. 25, 1933, was thereupon designated " Committee Exhibit No. 2, Dec. 19, 1933 ", and is reproduced herewith.)

Mr. LORD. The effect upon the deposits of open banks where a closing occurs in the same or a nearby community is always serious and was particularly so during those years when lack of confidence and fear were so prevalent in the public mind.

Another interesting situation that I might comment upon that took place in Michigan during that period was the fact that many banks who called themselves open—and there were literally county after county where this occurred—presented a situation where a man who tried to cash a check for a hundred dollars must be given $5 or $10. In other words, those banks held their doors open by brute strength, and there was no one in the community who wanted to see them close it, and they did the best they could, but it made a very difficult banking situation.

It may also be of interest to this committee to know what the situation is of the largest unit of the group, the Guardian National Bank of Commerce. That bank was a consolidation of the Guardian Detroit Bank, Bank of Detroit, and National Bank of Commerce, which latter bank had some previously absorbed the Griswold National Bank. I might say that, as shown on this chart, the Griswold National Bank had previously absorbed the First State Bank.

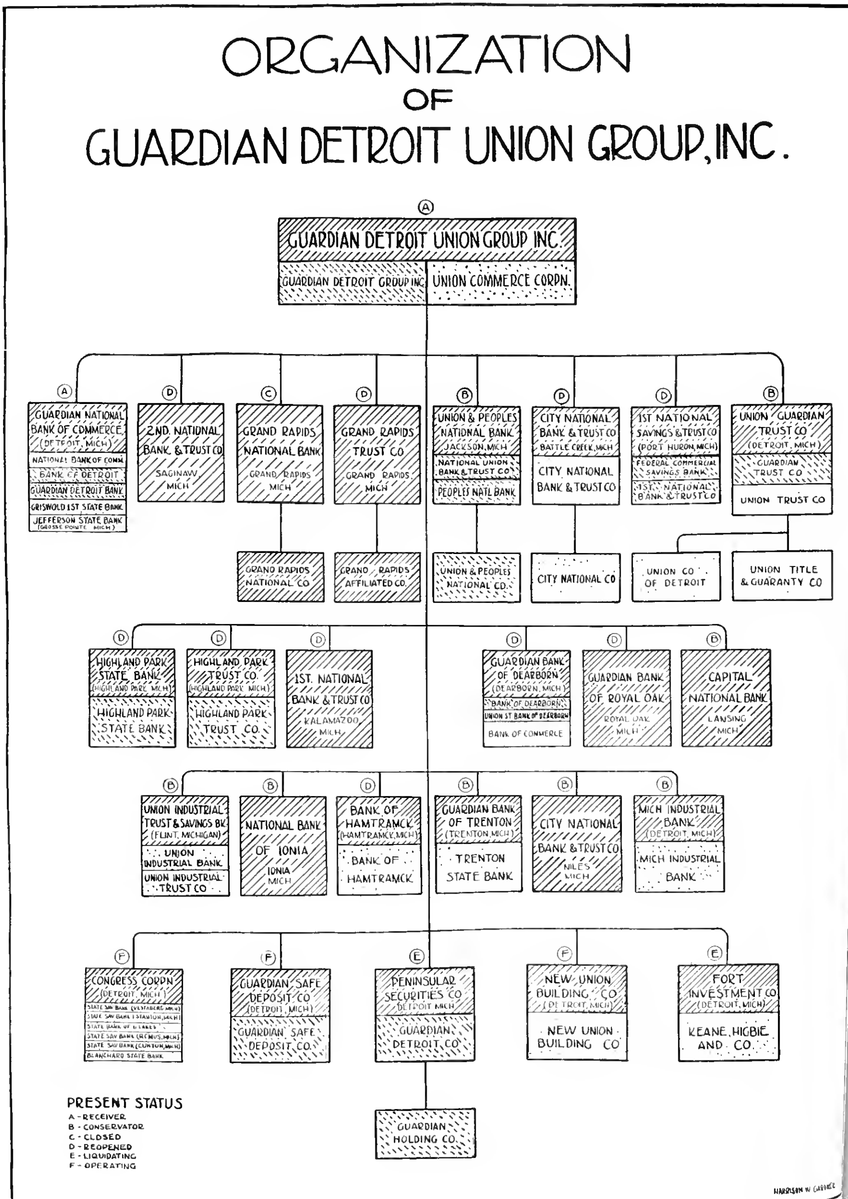
When these three banks were separate institutions they reported on December 31, 1929, total deposits of $190,609,633.78. When the final consolidation was completed December 31, 1931, the deposits were $169,058,328.36. On December 31, 1932, deposits were $138,-385,923.37. After the bank had been refused a license to reopen after the holiday and was in the hands of a receiver 40 percent was paid to the depositors by the middle of the summer of 1933. Since then an additional 20 percent has been paid and plans are being completed for an additional 5 percent. Taking into consideration the current withdrawals made in normal course of business since December 31, 1931, that is, the date of the consolidation, and figuring as nearly accurately as I can without access to the bank's records, the deposit liability of approximately $33,000,000 remaining after this last 5-percent payment—I say deposit liability as contrasted with contingent liabilities that come to a bank at its closing, such as rentals.

Senator COUZENS. Have you any estimate of that, Mr. Lord?

Mr. LORD. Very rough estimate. I should say they have set up four or five millions. That is the figure that I have heard, Senator, but I do not think it will take any such figure.

Senator COUZENS. That is for the leases and other claims?

Mr. LORD. For leases and other claims besides the depositors. The deposit liability of approximately $33,000,000 remaining after this last 5 percent payment means that during the period of less than 2 years, nearly 1 year of which the bank was closed, the bank has paid out to its depositors about $136,000,000, or nearly 80 percent of its deposits of December 1931. It is true that this was made possible


ORGANIZATION
OF
GUARDIAN DETROIT UNION GROUP, INC.
(A) GUARDIAN DETROIT UNION GROUP INC.
GUARDIAN DETROIT GROUP INC.
UNION COMMERCE CORPN.
(A) GUARDIAN NATIONAL BANK OF COMMERCE (DETROIT, MICH)
NATIONAL BANK OF COMM
BANK OF DETROIT
GUARDIAN DETROIT BANK
GRISWOLD 1ST STATE BANK
JEFFERSON STATE BANK (GROSSE POINTE MICH)
(D) 2ND. NATIONAL BANK & TRUST CO SAGINAW MICH
(C) GRAND RAPIDS NATIONAL BANK GRAND RAPIDS MICH
GRAND RAPIDS NATIONAL CO
(D) GRAND RAPIDS TRUST CO GRAND RAPIDS MICH
GRAND RAPIDS AFFILIATED CO.
(B) UNION & PEOPLES NATIONAL BANK JACKSON, MICH
NATIONAL UNION BANK & TRUST CO
PEOPLES NATL BANK
UNION & PEOPLES NATIONAL CO.
(D) CITY NATIONAL BANK & TRUST CO BATTLE CREEK, MICH
CITY NATIONAL BANK & TRUST CO
CITY NATIONAL CO
(D) 1ST NATIONAL SAVINGS & TRUST CO (PORT HURON, MICH)
FEDERAL COMMERCIAL SAVINGS BANK
1ST. NATIONAL BANK & TRUST CO
UNION CO OF DETROIT
(B) UNION GUARDIAN TRUST CO (DETROIT, MICH)
GUARDIAN TRUST CO
UNION TRUST CO
UNION TITLE & GUARANTY CO
(D) HIGHLAND PARK STATE BANK (HIGHLAND PARK MICH)
HIGHLAND PARK STATE BANK
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HIGHLAND PARK TRUST CO.
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(B) CAPITAL NATIONAL BANK LANSING MICH
(B) UNION INDUSTRIAL TRUST & SAVINGS BK (FLINT, MICHIGAN)
UNION INDUSTRIAL BANK
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(B) NATIONAL BANK OF IONIA IONIA MICH
(D) BANK OF HAMTRAMCK (HAMTRAMCK, MICH)
BANK OF HAMTRAMCK
(B) GUARDIAN BANK OF TRENTON (TRENTON, MICH)
TRENTON STATE BANK
(B) CITY NATIONAL BANK & TRUST CO NILES MICH
(B) MICH INDUSTRIAL BANK (DETROIT, MICH)
MICH INDUSTRIAL BANK
(F) CONGRESS CORPN (DETROIT, MICH)
STATE SAV BANK (VESTABURG MICH)
STATE SAV BANK (STANTON, MICH)
STATE BANK OF BLAKES
STATE SAV BANK (REMUS, MICH)
STATE SAV BANK (CLINTON, MICH)
BLANCHARD STATE BANK
(F) GUARDIAN SAFE DEPOSIT CO (DETROIT, MICH)
GUARDIAN SAFE DEPOSIT CO
(E) PENINSULAR SECURITIES CO DETROIT MICH
GUARDIAN DETROIT CO
GUARDIAN HOLDING CO.
(F) NEW UNION BUILDING CO (DETROIT, MICH)
NEW UNION BUILDING CO
(E) FORT INVESTMENT CO (DETROIT, MICH)
KEANE, HIGBIE AND CO.
PRESENT STATUS
A - RECEIVER
B - CONSERVATOR
C - CLOSED
D - REOPENED
E - LIQUIDATING
F - OPERATING
HARRISON W GARDNER

by the aid of the Reconstruction Finance Corporation, but there were no loans remaining from the Reconstruction Finance Corporation until the first 20 percent payment was made.

I might state there that in paying and completing the 40 percent the Reconstruction Finance Corporation loaned the receiver of the Guardian National Bank of Commerce four million three hundred ninety-one thousand and odd dollars; I think that is the correct figure. The National Bank of Detroit had when it opened brought about 13 million dollarsr of the loans which enable the 40 percent payment, and by the end of the summer the Reconstruction Finance loan had been back in full and most of the loans taken by the National Bank of Detroit had been liquidated.

Mr. PECORA. Pardon me, Mr. Lord; that National Bank of Detroit to which you have just referred was a new bank that was organized in the spring of the current year?

Mr. LORD. It was a new bank that was organized this year. I think it opened on March 24. In my opinion, with proper handling of the remaining assets and any reasonable recovery of business, the depositors will receive 100 cents on the dollar. Personally, I do not know of any closed institution with conditions in any way comparable where the showing is as good.

In 1929 Guardian had a definite plan to acquire bank shares in institutions in certain of the principal cities of Michigan, cities where industry was closely allied with the industries of Detroit. In no community did we desire or attempt to have a banking monopoly. There were many cases where bank shares were offered to and declined by our group, not only in cities where we already had a unit but in other communities. Our original program adopted in 1929 was completed early in the year 1930 and except for the Guardian Bank of Royal Oak which we organized in that city of upwards of 20,000 people at the request of its citizens because the three banks formerly serving that city had long since been closed, there were, I believe, no further additions of banking units to the group.

I have already stated that there were undoubtedly many errors in judgment. Broadly speaking, the greatest mistake of the Group was that it was organized at the peak of the Nation's prosperity—that we along with others were unable to foresee the conditions which were to follow that long period of prosperity and expansion of business. During almost the entire history of the group it was engaged in a battle against a depression probably never before equalled in its severity in the history of the world and the consequences of which were felt more acutely in Michigan and in Detroit than in any other section of this country. In this battle against the depression, most of the larger stockholders contributed enormously to support and stabilize the situation. Here are some of the instances:

First. In the late fall of 1929, when negotiations were in progress for the merger of the Guardian Detroit Group and the Union Commerce Corporation, a series of defalcations were discovered in the Union Industrial Bank of Flint, the stock of which bank has been or was being acquired by the Union Commerce Corporation. Mr. C. S. Mott, from his own resources, made good these defalcations,

which amounted in the aggregate to $3,595,000. He was later reimbursed in part by the other stockholders of the Flint Bank.

Second. When the Group Co., in December 1931, found it necessary to borrow, Mr. C. Mott loaned his credit on a note of the Group Co. with the Bankers Trust Co. of New York to the extent of $2,500,000.

Third: Late in 1930 Mr. Edsel B. Ford loaned to the Guardian Detroit Co. $1,000,000 in cash and also loaned to that same corporation—that was the securities company—approximately $5,000,000 of his personal securities.

Fourth: In December 1931 Mr. Edsel B. Ford loaned his credit to the Group Co. on a loan of $2,500,000 with the Continental Bank in Chicago.

Fifth: The Ford Motor Co. in December 1932 loaned the Group Co. $3,500,000 with which funds the Group Co. lifted out of the Union Guardian Trust Co. $3,500,000 of criticized assets.

Sixth. In December 1929 certain of the directors of the Guardian Detroit Group loaned their credit to the extent of $1,600,000 maximum, of which about $1,100,000 is now used, on a loan with the Bankers Trust Co. of New York, made for the purpose of carrying distress loans of certain officers and employees of the units of the Guardian Detroit Group.

Seventh: In November 1929, in order to relieve the Guardian Detroit Co. of part of its heavy inventory, a certain small group of stockholders purchased from that company, at $180 per share, 18,800 Group shares at a total cost of $3,384,000.

Eighth: In the early winter of 1930–31 certain individual stockholders agreed to subscribe for a total of approximately 93,000 shares of Group stock, to be bought from time to time in the open market at not to exceed $60 per share, the purpose of these purchases to stop or retard the decline in the quoted price of Group shares which was adversely affecting the institution's standing with an already hysterical public. That cost over $4,000,000.

Ninth: In the fall of 1930 certain individual stockholders put up $400,000 in cash through a company known as the Natum Corporation to purchase certain of the inventory of the Guardian Detroit Co., to provide funds for reduction in the loans of that company. These various items added together show that the larger stockholders contributed, in order to strengthen and stabilize the entire situation in the protection of the depositors, an aggregate of nearly $27,000,000.

Senator Couzens, that is where your money came from that lifted out the eight million four. Does that answer your question, sir?

Senator Couzens. Yes; except that you said that you got it from New York and Chicago banks. I understood.

Mr. Lord. Yes, sir.

Senator Couzens. And these loans from New York and Chicago banks were guaranteed by these stockholders?

Mr. Lord. Yes, sir.

Senator Couzens. That answers it.

Mr. Lord. Mr. Chairman, I do not know exactly what this committee wants, but I am here to cooperate in any way that I can.

The Chairman. Did any of these banks subsequently reopen as shown on this chart?

Mr. LORD. On that State chart?

The CHAIRMAN. Yes.

Mr. PECORA. That is the chart which has been presented by Mr. Lord and marked "Committee Exhibit No. 2".

Mr. LORD. I cannot tell you, Senator. It has been a changing situation. There has been a very substantial number of State banks reopened on a reorganization or on a partial withdrawal basis.

Senator COUZENS. There is one statement I would like to have you clarify, and that is you say that this sum of $27,000,000 was advanced for the purpose of protecting the depositors. Is that quite an accurate statement?

Mr. LORD. For either protecting the depositors directly or stabilizing the situation which was so disturbing to the depositors, Senator.

Senator COUZENS. Have you any figures to segregate that money that was put up for the protection of the stock in the group or the banks, as distinguished from that money that was put up for the protection of the depositors?

Mr. LORD. Yes. May I take a minute to give you the approximate figure?

Senator COUZENS. Yes.

Mr. LORD. I would say that Mr. Mott's contribution in Flint was for the protection of the depositors; wouldn't you? He made good a defalcation in a bank of which he was president.

Senator COUZENS. I should say so; yes.

Mr. LORD. That is $3,595,000. Do you want me to eliminate the loan of Mr. Edsel Ford to the securities company? Would you not consider that for the protection of the whole situation?

Senator COUZENS. I understood that was used for the purpose of taking up doubtful securities in these institutions.

Mr. LORD. No; I mean where he loaned some of his personal collateral to the security company.

Senator COUZENS. I do not know whether you can trace back to the purpose of that, the purpose for which it was used, or not, but I do not think it is in accord with your statement a while ago as to what it was used for.

Mr. LORD. It was loaned by the Guardian Detroit Co. to the securities company to enable them to carry their inventory.

Senator COUZENS. That would hardly be for the protection of depositors.

Mr. LORD. Not directly for depositors, but for the protection of the whole situation.

Senator, I would say that for the direct protection of the stockholders over 12 million went in, and the balance to stabilize the general situation.

Senator COUZENS. So that out of about 27 million about 12 million went for the protection of depositors and the balance for the protection of the stockholders?

Mr. LORD. First for the depositors, Senator. You know when the stock of the banks dropped how disturbed the depositor was?

Senator COUZENS. Oh, yes. You can only get the best estimate of how the money reacted, but I was trying to arrive at the purpose that first suggested the putting up of the money.

Mr. LORD. Senator, these purchases of stock to stabilize the general situation were not made by any stockholder with an idea of wanting the stock or for gain. It was for the one purpose.

Senator COUZENS. I understand that. I was not going back into the motive. I was just trying to get the purpose for which the money was used.

Mr. PECORA. Mr. Lord, I show you what purports to be a printed copy of the Annual Report for the year 1929 of the Guardian Detroit Union Group, which appears to have been issued to the stockholders over your signature as president. Will you look at it, particularly the portion of it which purports to give the names of the officers and directors for the first year of the Guardian Detroit Union Group, appearing at pages 2 and 3 and 4?

Mr. LORD. May I look at your copy?

Mr. PECORA. Certainly (handing document to Mr. Lord). And tell me if those pages correctly set forth the names of the officers and directors of the Guardian Detroit Union Group, Inc., for the first year.

Mr. LORD. I would assume so.

Mr. PECORA. Yes. Well, I want the record to show those things.

Mr. LORD. I haven't any reason to believe it is not correct.

Mr. PECORA. I offer in evidence that report, particularly those three pages enumerated pages 2, 3, and 4.

The CHAIRMAN. Let it be admitted. You do not want the whole report, but just those pages showing the officers and directors?

Mr. PECORA. I merely want to show the names of the officers and directors of the first holding company during the first year of its operations.

Mr. LORD. Mr. Pecora, might I say this, that this may not be the names of the officers and directors during the first year of operation. The report is dated as of January 28, after the annual meeting of 1930 which was held. See the point?

Mr. PECORA. Those names are the names of the original officers and directors of this holding company?

Mr. LORD. I do not know whether they are the original ones, because I haven't that list with me. But the point is this——

Senator ADAMS (interposing). They are the names at the beginning of the second year, as I get it?

Mr. LORD. They are the names of the officers and directors after the annual meeting of the corporation which was held in the latter part of January.

Mr. PECORA. Of 1930?

Mr. LORD. Of 1930. In other words, these men may not have served as officers and directors during the period covered by this report, but as of the date of the report. That is my understanding.

Mr. PECORA. With that explanation I will offer that list in evidence.

The CHAIRMAN. Let it be admitted and entered on the record.

(P. 2, 3, and 4 of Annual Report of Guardian Detroit Union Group for 1929 were thereupon designated "Committee Exhibit No. 3, Dec. 19, 1933.")

Mr. PECORA. I will first read the names of the directors shown on pages 2 and 3 of this report (reading):

Frank W. Blair, chairman Union Trust Co., Detroit.
Arthur C. Bloomfield, president National Union Bank & Trust Co., Jackson.
Henry E. Bodman, chairman Guardian Trust Co., Detroit.
Clarence H. Booth, chairman Motor Bankers Corporation, Detroit.
Ralph H. Booth, president Booth Newspapers, Inc., Detroit.
Joseph H. Brewer, president Grand Rapids Trust Co., Grand Rapids.
Walter O. Briggs, chairman and president Briggs Manufacturing Co., Detroit.
Daniel D. Brown, president First National Bank & Trust Co., Port Huron.
Harry C. Bulkley, Campbell, Bulkley & Ledyard, Detroit.
Charles S. Campbell, president First National Bank & Trust Co., Kalamazoo
Roy D. Chapin, chairman Hudson Motor Car Co., Detroit.
George R. Fink, president Michigan Steel Corporation, Detroit.
William A. Fisher, president Fisher Body Corporation, Detroit.
Edsel B. Ford, president Ford Motor Co., Detroit.
Frank E. Gorman, vice president Capital National Bank, Lansing.
Stephen A. Graham, president Federal Commercial & Savings Bank, Port Huron.
John C. Grier, Jr., president Guardian Detroit Co., Detroit.
C. H. Haberkorn, Jr., chairman Bank of Detroit, Detroit.
Carlton M. Higbie, chairman Keane, Highbie & Co., Detroit.
Sherwin A. Hill, Warren, Hill & Hamblen, Detroit.
Charles H. Hodges, vice president American Radiator & Standard Sanitary Corporation, Detroit.
James Inglis, president American Blower Corporation, Detroit.
Richard P. Joy, director National Bank of Commerce, Detroit.
George B. Judson, president Bank of Detroit, Detroit.
Ernest Kenzler, president Universal Credit Corporation, Detroit.
Jerome J. Keene, director Guardia Detroit Bank, Detroit.
Dwight B. Lee, president and treasurer Motor Products Corporation, Detroit.
Robert O. Lord, president Guardian Detroit Bank, Detroit.
Alvan Macauley, president and general manager Packard Motor Car Company, Detroit.
Francis C. McMath, director Canadian Bridge Co., Ltd., Detroit.
George B. Morley, chairman Second National Bank & Trust Co., Saginaw.
Charles S. Mott, vice president, General Motors Corporation, Detroit.
Fred T. Murphy, chairman Guardian Detroit Bank, Detroit.
Edwin H. Nelson, president Nelson, Baker & Co., Detroit.
Phelps Newberry, vice president Guardian Detroit Bank, Detroit.
Ransom E. Olds, chairman Reo Motor Car Co., Lansing.
Jerome H. Remick, president Detroit Creamery Co., Detroit.
Herbert S. Reynolds, president Peoples National Bank, Jackson.
John R. Russel, director Russel Steel Construction Co.
Murray W. Sales, president Murray W. Sales & Co., Detroit.
Henry H. Sanger, president National Bank of Commerce, Detroit.
R. Perry Shorts, president Second National Bank & Trust Co., Saginaw.
Hal H. Smith, Beaumont, Smith & Harris, Detroit.
Oscar W. Smith, president Parke, Davis & Co., Detroit.
John N. Stalker, president Union Trust Co., Detroit.
James L. Walsh, vice president Guardian Detroit Bank, Detroit.
Charles Beecher Warren, Warren, Hill & Hamblen, Detroit.
Dudley E. Waters, chairman Grand Rapids National Bank, Grand Rapids.

OFFICERS

Frank W. Blair, chairman of the board.
Henry E. Bodman, chairman executive committee.
Robert O. Lord, president.
John C. Grier, Jr., vice president.
James L. Walsh, vice president.
Henry H. Sanger, vice president.
Bert K. Patterson, vice president and treasurer.
C. H. Haberkorn, Jr., vice president.
Lewis K. Walker, vice president.
Joel H. Prescott, vice president.
Andrew L. Malott, vice president.
A. A. F. Maxwell, secretary.

H. A. Conner, assistant secretary.
Earnest Kanzler, vice president.
Phelps Newberry, vice president.
John N. Stalker, vice president.
Arthur H. Vogt, vice president and comptroller.
Samuel R. Kingston, vice president.
Charles A. Kanter, vice president.
Harry S. Covington, vice president.
R. Perry Shorts, vice president.
W. J. Penningroth, assistant treasurer.
O. A. Waldow, assistant comptroller.

Advisory committee: Fred T. Murphy (chairman), James Inglis (vice chairman), Henry E. Bodman, Roy D. Chapin, Edsel B. Ford, Charles H. Hodges, Ernest Kanzler, Alvan Macauley, George B. Morley, Charles S. Mott, Jerome H. Remick, John R. Russel, Murray W. Sales, Charles B. Warren.

Executive committee: Henry E. Bodman (chairman), Frank W. Blair, Harry C. Bulkley, John C. Grier, Jr., C. H. Haberkorn, Jr., Carlton M. Higbie, Sherwin A. Hill, Richard P. Joy, Ernest Kanzler, Robert O. Lord, Charles S. Mott, Fred T. Murphy, Edwin N. Nelson, Phelps Newberry, Murray W. Sales, Henry H. Sanger, John N. Stalker, James L. Walsh.

Operating committee: James L. Walsh (chairman), Frank W. Blair, Frank M. Brandon, Joseph H. Brewer, Harry S. Covington, Frank E. Gorman, Stephen A. Graham, John C. Grier, Jr., Carlton M. Higbie, George B. Judson, Charles A. Kanter, Samuel R. Kingston, Robert O. Lord, Duncan J. McNabb, Frank J. Maurice, E. R. Morton, Phelps Newberry, Bert K. Patterson, George R. Paul, Frank E. Quisenberry, Herbert S. Reynolds, Henry H. Sanger, Earl H. Shepherd, R. Perry Shorts, John N. Stalker, Arthur H. Vogt, Herbert R. Wilkin.

Mr. Pecora. Now, Mr. Lord, will you tell the committee what the functions were generally of the advisory committee of the board of directors?

Mr. Lord. I would say that the advisory committee was a policy committee.

Mr. Pecora. Meaning exactly what?

Mr. Lord. To discuss and formulate policies to recommend to the unit banks for their consideration, or to the board of directors of the Group Corporation itself.

Mr. Pecora. And this advisory committee not only formulated policies or proposed policies for the holding company itself, but also for the unit banks?

Mr. Lord. Only as suggestions to the unit banks. You see, on that advisory committee, as I recall it, there were some of the unit heads. I do not remember the list; I have not got it.

Mr. Pecora. What were the functions of the executive committee?

Mr. Lord. May I read here about the executive committee? Perhaps that will clarify it.

Mr. Pecora. What is it that you propose to read?

Mr. Lord. This is from what is known as Bulletin No. 1, issued by the Guardian Detroit Union Group.

Mr. Pecora. All right.

Mr. Lord (reading):

> The advisory committee is largely a policy-making committee. Its membership is comparatively small and includes no active operating officers of any unit. This committee has and should have entire freedom in criticising either the policies or handling of any unit or any department of the associated institutions. Its meetings are not held on stated days, but at regular intervals at the call of the chairman. Operating heads of units will from time to time be called to confer with this committee as to any question under consideration.

Senator COUZENS. Did they keep any minutes?

Mr. LORD. I think they did, Senator. Dr. Murphy, I believe, was chairman of the committee.

Senator COUZENS. Have you the minutes here?

Mr. LORD. I have not, sir.

Mr. PECORA. Was it the general purpose of this advisory committee to secure unanimity of action with regard to the general policies of the holding company and its various constituent units?

Mr. LORD. I would not say so, Mr. Pecora, because each unit might have its own problem. It was, so far as I could describe it, just what its name implies—an advisory committee, a committee which would advise with Grand Rapids or Saginaw or Flint over their problems, or would advise with the officers of the group over a group problem.

Senator COUZENS. Have you any evidence of any advice which they sent out?

Mr. LORD. I do not know that they sent it out. There were meetings.

Senator COUZENS. Is that where the advice was given—in meetings? Or was it given out in documentary form?

Mr. LORD. I do not know whether Dr. Murphy ever wrote any letters or not as chairman of that committee. I have no records here. I would say that mostly it was conversation at meetings.

Mr. PECORA. The advisory committee would from time to time confer with the executive heads of unit banks with regard to problems peculiar and exclusive to such unit banks?

Mr. LORD. I would think so.

Mr. PECORA. And at the same time would also discuss with heads of units banks problems that were common to all the unit banks represented by the Group?

Mr. LORD. They might.

Mr. PECORA. What were the functions of the executive committee of the board, generally speaking?

Mr. LORD. I would say that the executive committee's functions of the Group Co. were what any executive committee of a corporation would be, to act on behalf of the board in the intervals between board meetings.

Mr. PECORA. What were the functions of the operating committee of the board?

Mr. LORD. The operating committee was very largely an educational committee, Mr. Pecora. It was made up—if you will look at the list—to a great extent of the operating men in the units who had meetings every month, or perhaps more frequently, to discuss such matters as transit and various things dealing with the details of bank operation; and there might be some man selected from that committee who would talk on one particular subject, and then discussion would be had. Whether there are any minutes of those meetings I could not say. Colonel Walsh was chairman of the committee and maybe he kept full minutes; I do not know.

Senator COUZENS. Did that operating committee have anything to do with passing upon loans?

Mr. LORD. No, sir.

Senator COUZENS. Did the executive committee do that?

Mr. LORD. Not the Group Co.; each separate bank.

Senator COUZENS. You made no loans at all to any of your groups?

Mr. LORD. The Group Co.?

Senator COUZENS. Yes.

Mr. LORD. The Group Co. had nothing to do with loans to separate units.

Senator COUZENS. You just borrowed?

Mr. LORD. We borrowed money.

Senator COUZENS. But you did not lend it?

Mr. LORD. I say we did not. The Group Co. may at some time or other have loaned a little money, but they were not in the business of loaning money to the public, if that is what you mean.

Senator COUZENS. How many employees were engaged in that Group organization?

Mr. LORD. Actively, Senator?

Senator COUZENS. Yes.

Mr. LORD. Some of these listed are more or less honorary. I was president. Colonel Walsh gave a great deal of his time to Group activities.

Senator COUZENS. Did you get salaries separate from those you got from the units?

Mr. LORD. My salary, I believe, was split between the bank and the Group Co.

Senator COUZENS. Was that true also of Colonel Walsh?

Mr. LORD. I could not say. The chairman of the Group board, beginning in January 1932, was very active, and had no salary whatever.

Senator COUZENS. Have you any figures to indicate how many of the employees there were on full time in this organization?

Mr. LORD. No; but perhaps I can get them. [After conferring with associates.] Approximately 30, both in the examining department and the accounting department. The real active officers, from the standpoint of executive capacity, were the chairman, myself as president, Colonel Walsh, Mr. Patterson when he was with us, and the secretary, who was, I believe, Mr. Haberkorn, at that time, of the Group Co.

Senator COUZENS. Were any of those on the pay roll of any unit separately from the Group?

Mr. LORD. The salary may have been split between them as mine was. I only know about my salary.

The CHAIRMAN. What was your salary?

Mr. LORD. Do you want it since I was with the institution?

The CHAIRMAN. Yes.

Mr. LORD. For a portion of the year 1927—you see, I became head of the bank on June 15 when it opened, and I was there the first of June—for that portion of the year my salary was $29,176.62.

Senator COUZENS. In other words, you double that to get the annual salary?

Mr. LORD. No; not quite, because I was there 7 months. During 1928 I received $50,010. I don't know how that $10 came in. This is my income-tax record. In 1929 my compensation was $84,759.92. In 1930 my salary was divided between the Guardian

Detroit Bank, which paid me $37,249.86, and the Guardian Detroit Co. which paid me $11,250. The Union Guardian Trust Co. which was a consolidation of our Guardian Trust Co. and the Union Trust Co.—I had been president of our Guardian Trust Co. prior to that consolidation—the Union Guardian Trust Co. paid me $7,499.88.

Senator COUZENS. Was that in 1930?

Mr. LORD. That was the year, 1930.

Senator COUZENS. What was the aggregate of that?

Mr. LORD. About $56,000. In 1931 the Guardian Detroit Bank paid me $24,166.56. The Guardian Detroit Co. paid me $10,000. The Guardian Detroit Union Group paid me $7,500. It was apparently the first year in which the Group paid any of my salary. The Union Guardian paid me $6,666.66. That totals about $48,000. In 1932 my total compensation was $45,479.14, divided $25,312.56 to the Group and $20,156.58 to the bank. The reason that the increase came from the Group was that I was spending more of my time all the time on Group matters, and the board felt it was entirely proper that that institution should pay me.

Senator COUZENS. Did you get any compensation after the banks closed?

Mr. LORD. I think I got a couple of thousand dollars: I don't remember. That was until after the first of April, and then it was cut off entirely.

The CHAIRMAN. What became of the bank finally?

Mr. LORD. The Guardian National Bank?

The CHAIRMAN. Yes.

Mr. LORD. It is still in the hands of receivers. It will have paid out 65 percent through the cooperation of the senior Senator here, and others in Washington. An arrangement has just been completed that will pay in full the depositors who had on the date of the holiday $1,000 or less. That has been done by the fine cooperation not only of the authorities here in Washington, but also some of the bank depositors who have waived their rights to that 5 percent so that the little fellow can get his money in full.

The CHAIRMAN. This has been paid out of loans from R. F. C.?

Mr. LORD. Yes, sir, only in part——

Senator COUZENS. He stated a while ago how it was divided up.

Mr. LORD. I think, Senator Fletcher, when they get through even with the 5 percent, the bank will owe less than $28,000,000 to R. F. C. and will have paid back since December 31, 1932, to the depositors $105,000,000.

The CHAIRMAN. What became of this holding company?

Mr. LORD. It is in receivership.

The CHAIRMAN. Did you sell any of the stock of the holding company to the public?

Mr. LORD. Did we sell any to the public?

The CHAIRMAN. Yes.

Mr. LORD. There were dealings in it all the time. Unfortunately, the stock was listed on the Detroit Stock Exchange; and I might say here that it was listed over my protest. No bank stock should ever be listed on an exchange.

The CHAIRMAN. And the public bought from the Exchange?

Mr. LORD. They bought it on the Exchange. The only direct offering that the Guardian Detroit Group as such, my group, as against the Union Commerce Group, made, was in 1929. The Guardian Detroit Group offered to its stockholders the right to subscribe to an amount of stock equal to 10 percent of their holdings. The Union Commerce corporation did, however, make an offering, but I have not the record of it here.

Senator COUZENS. Was that 10 percent all subscribed by your stockholders?

Mr. LORD. Yes, sir.

Mr. PECORA. Mr. Lord, as the board of directors of the Guardian Detroit Union Group, Inc., was constituted and as its various committees of the board of directors were constituted, there were represented on the board of directors the operating or executive heads of most if not all of the banks that were units of this group; is not that a fact?

Mr. LORD. Certainly the senior executives in most cases, Mr. Pecora, and in some cases the operating heads.

Mr. PECORA. Do you recall having appeared on April 23, 1930, before a meeting of the Committee on Banking and Currency of the House of Representatives during the second session of the Seventy-first Congress, where hearings were being held on House Resolution No. 141?

Mr. LORD. Yes; I think so. That was the MacFadden committee, was it not?

Mr. PECORA. Yes. And at that time you read to that committee a prepared statement, many extracts from which have been embodied in the statement which you read to this committee this morning?

Mr. LORD. Some of them; yes.

Mr. PECORA. I have what purports to be a printed copy of that statement of yours to the house committee on April 23, 1930, and I want to read therefrom the following extract to see if you recall having made the statement [reading]:

> Aside from the detail of illegality or any intent to usurp the functions or hamper the activities of the board of directors of a local unit bank, such a course would run directly counter to prudence, good judgment, and common sense. Experience indicates that the bulk of profitable business enjoyed by a given bank is the result of the personal efforts of the directors and officers. Hence any policy which impairs even in the slightest degree the prestige or enthusiasm of the local board of directors is a body blow at the growth of the local unit bank and therefore at the growth and prosperity of the group as a whole. The deliberate adoption of policies so obviously suicidal is unthinkable. Nevertheless extreme care must be exercised to insure that group management does not, perhaps unconsciously, encroach upon the statutory and customary authority and responsibility of the unit bank management. Accordingly, it is deemed advisable to particularly emphasize "the group policy of noninterference with local management" by formal action of the group board of directors.

Do you recall generally that statement?

Mr. LORD. It sounds familiar.

Mr. PECORA. In that statement you attempted to give the House Committee on Banking and Currency, in April 1930, a statement of a principle that was governing and guiding the board of directors of this Guardian Detroit Union Group?

Mr. LORD. In general; yes.

Mr. PECORA. As a matter of fact, Mr. Lord, was that principle strictly adhered to?

Mr. LORD. So far as I personally know, it was. It is not always possible to control some other individual. But it certainly was the policy of the Group to let the unit banks be run by their own boards and their own officers.

Mr. PECORA. Did the board of directors of the Group—and by the Group I mean the holding company known as the Guardian Detroit Union Group, Incorporated—have any control over the selection of the boards of directors of the unit banks in the Group?

Mr. LORD. I assume they had control, because the Group owned the stock. So far as exercising that control is concerned, I do not know whether it ever forced a director on a local unit, except in Flint, where that defalcation had occurred and where it was necessary to put 35 men in there to keep the bank running.

Mr. PECORA. Did the board of directors of the Group suggest from time to time to any of the local or unit banks names of persons to serve on the board of directors of your unit banks?

Mr. LORD. Mr. Pecora, before every annual meeting of these local banks the heads of the unit banks used to come in and discuss all of their plans for their boards and for the next year's business with me or with some of the other officers in the Group. Does that answer your question?

Mr. PECORA. It is an answer to the question.

Mr. LORD. The matter was discussed just like you would discuss it with any stockholder, a substantial stockholder.

Mr. PECORA. Now will you answer the question a little bit more specifically?

Mr. LORD. May I have it again, please?

Mr. PECORA. The reporter will read it.

(The question referred to was read by the reporter as above recorded.)

Mr. LORD. I think that might have been done at times where a bank perhaps needed some talent that we thought could be supplied either locally or from our own organization. I do not recall specific instances. Do you have such a specific instance in mind?

Mr. PECORA. I have before me what purports to be a photostatic reproduction of a letter addressed to Mr. L. H. D. Baker, of the National Bank of Commerce, Union Guardian Building, Detroit, Mich., dated July 24, 1931, which apparently was sent out by you. Will you look at it and tell us if it serves to refresh your recollection of an instance where the name of an individual was suggested by you on behalf of the Group to the officers or directors of a unit bank for inclusion on the board of directors of such unit bank?

Mr. LORD. Yes; I recall the incident rather vaguely.

Mr. PECORA. Would you say that was a true and correct copy of a letter sent by you to that gentleman?

Mr. LORD. I think that is; yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and made a part of the record.

(Photostatic copy of letter dated July 24, 1931, addressed to L. H. D. Baker, National Bank of Commerce, Union Guardian

Building, Detroit, Mich., was received in evidence, marked "Committee Exhibit No. 4, Dec. 4, 1933.")

Mr. PECORA. I will read the exhibit to the committee [reading]:

COMMITTEE EXHIBIT No. 4

JULY 24, 1931.

(Personal)

MR. L. H. D. BAKER,
% *National Bank of Commerce,*
Union Guardian Building, Detroit, Michigan

MY DEAR LEE.—As you may know, Mr. D. F. Valley is giving a very considerable amount of his time toward the affairs of the Michigan Industrial Bank. In order to accomplish what we want, I think he should be a director in this bank and I am going to ask you if you will be good enough to send me your resignation as a director so that we can have the Board elect Mr. Valley in your place.

This is no reflection whatever upon you or your service to that institution. I do not think it wise to ask any of our outside directors to resign and am, therefore, taking the liberty of asking this favor of you.

Very truly yours,

——— ———, *President.*

ROL N

This letter was signed by you as president of the Group, was it not?

Mr. LORD. I believe so. I don't know whether it was signed by me as president of the Group or not.

Mr. PECORA. The initials below, in the left-hand corner, are "R. O. L."

Mr. LORD. Yes. I imagine it was written on the bank letterhead.

Mr. PECORA. It was signed by your name, was it not?

Mr. LORD. It was signed in my name.

Mr. PECORA. What were you going to say about this?

Mr. LORD. My recollection of the circumstances is rather vague. Mr. L. H. D. Baker was an employee or officer of the National Bank of Commerce. The matter of Mr. Valley taking his place on the Michigan Industrial Board was discussed personally with the president of the Michigan Industrial Board, and it was put up to them for their approval.

Senator COUZENS. Did he accept the suggestion?

Mr. LORD. I believe so, because he left the bank shortly after that.

Mr. PECORA. Do you know of any other instances where suggestions of a generally similar character were made and carried out?

Mr. LORD. I do not recall any specifically.

Mr. PECORA. I have here what purports to be a photostatic reproduction of a memorandum entitled "Intra-Group Memorandum", addressed to Mr. Joseph H. Brewer, president of the Grand Rapids National Bank, from Mr. Patterson, executive vice president, Guardian Detroit Union Group, Inc., bearing date September 29, 1931, and which reads as follows [reading]:

I anticipate that it is going to be necessary to make a few changes in the members of the board of directors of the National Bank of Ionia, but we will not do so until the next meeting. What would you think of the advisability of your going on the board in place of one man who we think has served his purpose to the institution (I do not refer to either Messrs. Green, Robinson, or Chapman)? Inasmuch as the bank is located only a short distance from you it probably would not require a great deal of your time, and I apprehend that your presence on the board would give it the right kind of balance, and as time goes on I am certain that the people of Ionia would more and more

look to you for advice in their major matters. I have not mentioned the matter to Mr. Lord, except in a very general way, about the Ionia suggestion, and will not do so until I get your reaction to the suggestion.

Does the reading of this memorandum refresh your recollection concerning the making of a similar suggestion with respect to the personnel of the board of directors of the unit bank known as the National Bank of Ionia?

Mr. LORD. No; I have no particular recollection of making a similar suggestion. I do recall that it was discussed, and I believe Mr. Brewer did accept a directorship in that bank. I could not swear to that, because I have not the record. I think he did finally go on the National Bank of Ionia.

Mr. PECORA. Who was the director whose place was taken by Mr. Brewer?

Mr. LORD. I do not know.

Mr. PECORA. Is there any way by which you could refresh your recollection?

Mr. LORD. I might find out. Would you like to have it?

Mr. PECORA. Could you do that readily at this moment?

Mr. LORD. I will try. [After conferring with an associate:] The only man here who would know is Mr. Patterson, and he says he does not recall. I do not recall, frankly.

Mr. PECORA. By the way: The Mr. Patterson referred to in this intragroup memorandum as its executive vice president, that is, as the executive vice president of the Guardian Detroit Union Group, Inc., was at one time a national bank examiner for the district that included the National Bank of Detroit, Mich., was he not?

Mr. LORD. Mr. Patterson was chief national bank examiner for the seventh Federal district.

Mr. PECORA. Which included Detroit?

Mr. LORD. It includes Detroit.

Mr. PECORA. That is the second largest district in the country, is it not?

Mr. LORD. Yes. Previous to that time he had been chief examiner, I believe, for the Minneapolis district. I cannot tell you the number of that district.

Mr. PECORA. When was he taken into the personnel of the Guardian Detroit Union Group?

Mr. LORD (after conferring with associate). August 1929.

Mr. PECORA. That was shortly after the incorporation of the Guardian Detroit Group, Inc.?

Mr. LORD. Yes, sir.

Mr. PECORA. Did Mr. Patterson enter the service of the Guardian Detroit Group directly from his position as chief national bank examiner for the seventh district?

Mr. LORD. I do not know; I cannot answer that. I am sorry.

Mr. PECORA. Could you ascertain readily from Mr. Patterson if that is a fact?

Mr. LORD. He says; yes.

Mr. PECORA. While we are on this particular subject, may I ask, were there any other officers or members of the personnel of the Guardian Detroit National Group who, just prior to their inclusion in the personnel of the Group, had been national bank examiners?

Mr. LORD. I think after Mr. Patterson came to us he engaged some of the former examiners who had worked with him either in the seventh district or in the Minneapolis district.

Mr. PECORA. How many such individuals were taken into the service of the Group?

Mr. LORD. Mr. Patterson says two, Mr. Pecora. I do not know.

Mr. PECORA. Do you know a Mr. R. L. Hopkins?

Mr. LORD. Yes, sir.

Mr. PECORA. Was he taken in as vice president of the Union Industrial and Savings Bank of Flint, which was one of the unit banks of the Group?

Mr. LORD. He was.

Mr. PECORA. And had he been prior to that a national bank examiner?

Mr. LORD. He had, sir.

Mr. PECORA. He had examined the Guardian Detroit Bank and the National Bank of Commerce at the time of the merger of those two institutions, had he not?

Mr. LORD. Yes, sir.

Mr. PECORA. Was he still connected with the unit bank at the time of the receivership of the Guardian Detroit Union Group?

Mr. LORD. I think he was, Mr. Pecora.

Mr. PECORA. Do you know a Mr. C. A. Bryan, who became vice president of the Capital National Bank at Lansing, another one of the unit banks of the Group?

Mr. LORD. Mr. Bryan came to us through Mr. Patterson and worked with Mr. Patterson for some time as an examiner.

Mr. PECORA. Had he been a national bank examiner prior to his becoming a vice president of the Capital National Bank of Lansing?

Mr. LORD. Yes, sir.

Mr. PECORA. Now do you know a Mr. W. J. Penningroth?

Mr. LORD. I do, sir.

Mr. PECORA. He was another national bank examiner who was made vice president of another unit bank of the Group?

Mr. LORD. Yes.

Mr. PECORA. Namely, of the First National Bank & Trust Co. of Niles?

Mr. LORD. Yes, sir.

Mr. PECORA. That makes four, all told, including Mr. Patterson, who came into the service of the Group or one or more constituent or unit banks from the office of the Comptroller of the Currency as national bank examiners; is that right?

Mr. LORD. I think so.

Mr. PECORA. Do you know of any others?

Mr. LORD. No; I do not. I will ask Mr. Patterson.

Mr. PECORA. How about persons who had been bank examiners for the State Banking Department of Michigan? Do you know of any such persons who were taken into the service of the Group?

Mr. LORD. I do not.

Mr. PECORA. Or of any of its unit banks?

Mr. LORD. No, sir. There may have been, Mr. Pecora, but I do not know.

Mr. PECORA. Now, I want to go back to the letter which you wrote to Mr. Baker under date of July 24, 1931, marked "Committee's Exhibit No. 4."

Senator GORE. What Baker is that?

Mr. PECORA. Mr. Baker was connected with the National Bank of Commerce, one of the unit banks, and in this letter it was suggested to Mr. Baker that a Mr. D. F. Valley be made a director of the Michigan Industrial Bank, another of the unit banks controlled by the group.

Senator GORE. I thought maybe he was a New York financier.

Mr. PECORA. No, sir. Mr. L. H. D. Baker.

Now, in this letter, committee's exhibit no. 4, which you addressed to Mr. L. H. D. Baker on July 24, 1931, after referring to the activity of Mr. D. F. Valley and the affairs of the Michigan Industrial Bank, you say as follows:

> In order to accomplish what we want, I think he should be a director in this bank and I am going to ask you if you will be good enough to send me your resignation as a director so that we can have the board elect Mr. Valley in your place.

Now, what was it that the Group, or you as the president of the Group sought to accomplish at that time through the medium of the election of Mr. Valley as a director of the Michigan Industrial Bank in place of Mr. Baker?

Mr. LORD. What did we seek to accomplish?

Mr. PECORA. Yes. In other words, what did you mean by the expression in your letter to Mr. Baker which reads as follows: "In order to accomplish what we want, I think he should be a director in this bank" etc.?

Mr. LORD. Mr. Valley was a trained credit man, and as a director, if he were a director in that bank, we felt he could considerably strengthen the handling of these small credits in the Michigan Industrial Bank. Is there any reason why a stockholder should not suggest a director, Mr. Pecora?

Mr. PECORA. I am not disputing the question. I am simply attempting to ascertain the fact of the extent, if any, to which the board of directors of the Group went in selecting or determining the personnel of the boards of directors of unit banks, and I am seeking to ascertain what the fact was particularly in view of your statement to the House Committee on Banking and Currency on April the 23d, 1930, wherein you expressed as a guiding principle of the Group its policy of noninterference with the unit banks. Do you see what I am driving at, Mr. Lord?

Mr. LORD. I see what you are driving at. I think that that policy was carried out, Mr. Pecora. I do not consider a suggestion as to a director interference by the Group, because Mr. Valley went in as one—for instance, if you want to take the Michigan Industrial—as one of 15 or 20 directors. I would not call that interference.

Mr. PECORA. Do you think that when the Group made suggestions to unit banks for the inclusion on their board of directors of individuals nominated or designated by the Group, and those suggestions were carried out, that that was in line with the strict policy of noninterference or usurpation of management?

Mr. LORD. Mr. Pecora, I do not know that that—that is a letter to Lee Baker asking for his resignation.

Mr. PECORA. So that somebody else might be named in his place?

Mr. LORD. Yes.

Mr. PECORA. And that resignation was forthcoming, and that somebody else was named in Mr. Baker's place, all in line with the request embodied in your letter as president of the Group to Mr. Baker? Is that not so?

Mr. LORD. I assume it happened; yes. Now, here is a list of the directors of the Michigan Industrial Bank at the end of 1929. Twenty-nine directors.

Mr. PECORA. Did you say before that it was customary or the procedure for officers of the unit bank to submit a list of the persons proposed for election as directors to the officers of the Group prior to the annual meetings of the unit bank?

Mr. LORD. Mr. Pecora, many times if there was a vacancy on the board of a local bank, the head of that local bank would come in and discuss various men that he would like to recommend for election to that vacancy. And it was usually left: "Whatever man you think is best is entirely satisfactory to us." Now it might be interesting to this committee, and it might clarify the question, if it were possible to take these boards of the various units and see what members of those boards were what you might call Detroit representation rather than local representation. Have you done that? I mean it would, I think, answer the broad question as to whether the Group Co. was attempting to dominate those boards in any way.

Mr. PECORA. Do you contend that the Group Co., through its executive officers or board of directors or committees of the board of directors, did not attempt to dominate the affairs of the unit banks?

Mr. LORD. Not beyond the rights of the stockholders.

Mr. PECORA. To what extent within those rights, or what you conceive to be those rights, did the Group or its officers or directors attempt to dominate the affairs of such unit banks?

Mr. LORD. I do not think we did it anywhere beyond the right that we had to exercise it.

Mr. PECORA. To what extent did you attempt to exercise it?

Mr. LORD. I am not a lawyer.

Mr. PECORA. You do not have to be a lawyer to state facts.

Mr. LORD. All right. As I understand the right of the stockholder it is to elect the directors. Is that correct? The charters of the Group companies provided that in voting that stock 75 percent of the directors of the local bank must reside within the community or within 50 miles of the community. Now if we take the separate institutions where what you might call Group representatives were directors, you will find that there are very few of them. We never had a member on the Saginaw board. We never had a member on the Port Huron board. We never had a member on either of the Grand Rapids boards. We never had a member on the Lansing board, I don't believe. Nor on the Kalamazoo board. The cases——

Mr. PECORA. Those local banks had membership on the board of directors of the Group, did they not?

Mr. LORD. They did; yes, sir.

Mr. PECORA. And in that way they became Group-minded, so to speak, did they not?

Mr. LORD. We tried to educate them along sound banking lines.

Mr. PECORA. As those sound banking lines existed in the minds of the members of the board of the Group or the officers of the Group?

Mr. LORD. Yes.

Mr. PECORA. Yes. Now the fact is that no person could retain his place on the board of directors of any of these local or unit banks who was opposed by the officers or board of the Group, is that not so?

Mr. LORD. Well, that is a difficult question to answer, because I do not know of any conflict where there was opposition.

Mr. PECORA. Would it have been possible in view of the stock ownership or control of the unit banks by the Group for any person to remain—be reelected to the board of directors of any unit bank over the wishes of the officers and directors of the Group?

Mr. LORD. Not as owning a majority of the stock, no.

Mr. PECORA. No; but even where the Group did not own a majority of the stock it owned sufficient to give it management control, did it not?

Mr. LORD. Well, it did, except for those seven small banks, Mr. Pecora, which owned a majority of the stock.

Mr. PECORA. Yes. So that the condition itself was one that made it impossible for anyone to defy the wishes of the Group or its board and remain on the board of directors of the local or unit bank if the Group wanted to get them out?

Mr. LORD. That condition was possible, yes.

Mr. PECORA. Not only was possible but it actually existed, did it not?

Mr. LORD. Well, such a thing never took place. It is a very difficult thing—legally, as controlling the stock, if we had desired not to reelect a man on the directorate, certainly we could have done it, but the situation, so far as I know, never arose.

The CHAIRMAN. Did the unit submit to you its list of directors or proposed directors?

Mr. LORD. Most of the time. They would say "We would like to reelect our board" or "We have a vacancy and we would like to have Mr. So-and-so. Is he satisfactory?"

Mr. PECORA. Here is an instance illustrated in this memorandum that I have heretofore read into the record, which Mr. Patterson sent to Mr. Brewer, in which he said:

> I anticipate that it is going to be necessary to make a few changes in the members of the board of directors of the National Bank of Ionia, but that we will not do so until the next annual meeting.

Is that not clearly a statement of the purpose, intent, and desire on the part of the board of the Guardian Detroit Union Group to make changes in the personnel of the board of directors of the unit bank known as the National Bank of Ionia?

Mr. LORD. Mr. Pecora, I do not think I ever saw that memorandum before. I would like to have a chance to study it. I would like to know a little more about the circumstances—whether it was because of resignations that had been offered by some of those directors or what the circumstances were.

Mr. Pecora. Let me read the sentence immediately following the first sentence which I have just read to you [reading]:

What would you think of the advisability of your going on the board in place of one man whom we think has served his usefulness to the institution?

Does not that indicate a specific purpose to replace a particular individual with another individual named by officers of the group?

Mr. Lord. Mr. Pecora, I do not know the circumstances. Somebody might have offered to resign, and when Mr. Patterson says "may have outlived his usefulness" it may have been a question of whether we urged him to stay on or let him resign. I do not know the circumstances of the case. It is very difficult for me to answer. I am sorry.

Mr. Pecora. Now Mr. Lord, when a person became a director of a unit bank he had to own a certain number of qualifying shares, did he not?

Mr. Lord. Yes, sir.

Mr. Pecora. Was any arrangement in effect between directors of unit banks and the group with respect to transfer of those qualifying shares in the event of such a director ceasing to be a director of a unit bank?

Mr. Lord. Yes, sir.

Mr. Pecora. What was that arrangement, please?

Mr. Lord. I have here a receipt issued to me. May I read it?

Mr. Pecora. Yes.

Mr. Lord. This says:

NO S 30, 10 SHARES, UNION GUARDIAN TRUST CO. DEPOSITARY RECEIPT

This is to certify that the undersigned holds on deposit 10 shares of the capital stock of Union Guardian Trust Co. issued in the name of Robert O. Lord subject to the terms of an agreement executed by him and by the Guardian Detroit Union Group, Inc., a copy of which agreement appears on the reverse side of this certificate.

Union Guardian Trust Co.,
Depositary.

By E. C. Harris,
Authorized Officer.

Date, April 15, 1930.

The reverse side of this certificate reads as follows:

(The agreement referred to on the face of this receipt consists of a letter from the Guardian Detroit Union Group, Inc., to the holder, and his acceptance thereof, in the following form:)

You have deposited with Union Guardian Trust Co. depositary 10 shares of the stock of Union Guardian Trust Co., which shares are owned by you and held in your own name on the books of the corporation. We have deposited with the same depositary 50 shares of the stock of Guardian Detroit Union Group, Inc., issued in your name.

It is understood that upon the termination of your directorship of Union Guardian Trust Co. the 10 shares of that company deposited by you as aforesaid shall be delivered to and become the property of the undersigned, and that simultaneously the 50 shares of the Guardian Detroit Union Group, Inc., deposited by us aforesaid shall be delivered to you and shall become your property.

Meanwhile all dividends (including stock dividends) upon said shares of Guardian Detroit Union Group, Inc., so held will be paid directly by that company to you, and you will be entitled, as the shares are registered in your name, to subscribe for any increase of the shares of that company.

In order to avoid duplication of payment, we will ask you to assign to Guardian Detroit Union Group, Inc., your right to receive any and all dividends (including stock dividends) upon the 10 shares of the Union Guardian Trust

Co. referred to above, also your right as the owner of those shares to subscribe to any increase of stock represented thereby.

Your approval of the arrangement outlined in this letter should be evidenced by signing a duplicate copy hereof and returning the same to us, whereupon a suitable depositary's receipt will be issued to you.

Very truly yours,

GUARDIAN DETROIT UNION GROUP, INC.
By ——— ———,
Secretary.

I hereby agree to the arrangement set forth in the foregoing letter and hereby make the assignment of all dividends (including stock dividends) and subscription rights pertaining to the 10 shares of Union Guardian Trust Co. and direct that all such dividends shall be paid to Guardian Detroit Union Group, Inc.

Mr. PECORA. Now was a similar arrangement to that which you have just read into the record made between every officer or director of a unit bank and the Group?

Mr. LORD. A somewhat similar arrangement, I think, Mr. Pecora, except in the case of Saginaw. I am not certain about that.

Mr. PECORA. Then generally speaking every person upon his becoming a director of a unit bank was required to enter into an agreement whereby the shares of the unit bank which he held or owned in order to qualify him to serve as a director were upon his ceasing to be a member of the board to be exchanged——

Mr. LORD. That is right.

Mr. PECORA (continuing). For stock, capital shares of the Group, thereby depriving such person of the ownership of qualifying shares upon his ceasing to be a member of the board of directors of the unit bank? Is that correct?

Mr. LORD. I would not say depriving him. It was an agreement he voluntarily entered into having those director's shares exchangeable when he resigned as a director. He did not have to become a director. It was a voluntary matter.

Mr. PECORA. I know he did not have to become a director, but in order to become a director he had to enter into such an agreement as you referred to, did he not?

Mr. LORD. In the case of Saginaw they did not, Mr. Pecora.

Mr. PECORA. With that solitary exception is that true?

Mr. LORD. There may have been other exceptions. That is the one I do know about. That I do happen to recall.

Mr. PECORA. Generally speaking that was done?

Mr. LORD. Generally speaking I think that was done.

Mr. PECORA. Now what was the reason for that, Mr. Lord? Can you tell us?

Mr. LORD. I suppose because there was no desire to have the stock floating around loose.

Mr. PECORA. Do you mean that, Mr. Lord?

Mr. LORD. Do I mean that?

Mr. PECORA. Yes; do you mean that seriously, that the purpose of this agreement was in order that the stock in the local bank or the unit bank would not be floating around loose?

Mr. LORD. Well, perhaps that is a poor answer.

Mr. PECORA. Well, suppose you make a better answer.

Mr. LORD. Well, I think it is a legal question. May I consult with my associates here?

Mr. PECORA. Consult with anybody you want to. Tell us who you are going to consult with here so the record can show.

Mr. Lord (after consulting with associates). Mr. Pecora, the purpose of that was so that no former director should either profit or lose by the ownership of those director's shares. That he should have the same treatment as any other stockholder in the matter of dividends and subscription rights.

Mr. Pecora. Well, was that same arrangement required to be entered into by every stockholder of the group?

Mr. Lord. No. Perhaps I have not made myself clear. Supposing that I was a director of, we will say, the Kalamazoo bank for the sake of argument. I own 10 shares. The Kalamazoo bank, we will say for the sake of argument, had a profitable year, and they declared an extra dividend. Why should I benefit at the expense of other group stockholders through the ownership of those 10 director's shares?

Mr. Pecora. Was that the reason for the making of this agreement or arrangement between the group and all persons who became directors of any of the unit banks?

Mr. Lord. That is one reason. So that all of the stockholders would be treated on the same basis. Now, I might say in connection with this depositary agreement that, according to my recollection and understanding, it was approved both by the State and the national banking authorities.

Mr. Pecora. Have you any opinion rendered by any State or national banking authority on that specific question that was submitted to you?

Mr. Lord. I do not know whether it was in writing or whether it was a verbal opinion.

Mr. Pecora. Why do you say then that it was approved?

Mr. Lord. Because that is my recollection of it. So far as Mr. Pole's department—who was then Comptroller.

Mr. Pecora. You do not know in what form it was expressed, whether it was oral or written?

Mr. Lord. Mr. Pecora, I will see whether it was in writing. [After consulting with associates:] Mr. Pecora, it seems to me that the approval of the Comptroller is evidenced by the fact that every single examination that was made of a national bank they looked into the holding of those shares, and how they were held, and if they had objected to it they would have said so and required us to hold them another way.

Mr. Pecora. Is that not an assumption on your part, Mr. Lord?

Mr. Lord. Is it not a proper assumption on my part? I know that the matter was discussed.

Mr. Pecora. With whom?

Mr. Lord. With Mr. Pole by Mr. Sherwin Hill.

Mr. Pecora. When?

Mr. Lord. I cannot tell you the date. In 1929. The exact date I do not know.

Mr. Pecora. That is, Mr. Pole was then Comptroller of the Currency?

Mr. Lord. I believe he was.

Mr. Pecora. And Mr. Sherwin Hill was a director of the group?

Mr. Lord. He was, I think, a director of the group. I am sure he was.

Mr. PECORA. And he took up with Mr. Pole the discussion——

Mr. LORD. He discussed it with Mr. Pole.

Mr. PECORA (continuing). Of the question of the legality of the agreement between these persons elected as directors of the unit banks?

Mr. LORD. That is my understanding, Mr. Pecora. Mr. Hill is not here or I would ask him. I am sorry. Certainly both the State and national examiners were shown this form of receipt. They knew all about it. There was not anything hidden from them, and there was no objection that I ever heard from them on that question.

Mr. PECORA. Let me refer you to the following provision of the general banking laws of the State of Michigan—section 1207, the laws relating to banking [reading]:

> Every director must own and hold in his own name shares of the capital stock of such company the aggregate par value of which shall not be less than $1,000.

You are familiar with that provision of the Banking Laws of the State of Michigan, are you not, Mr. Lord?

Mr. LORD. Yes.

Mr. PECORA. Do you know what principle was served by this provision of the law?

Mr. LORD. I think the principle was served that a man must own outright, unpledged against a loan, his bank qualifying shares. In fact in the State of Illinois, as I recall it, you can deposit your qualifying shares with the cashier of the bank to prove that it is unpledged. I do not recall whether the Michigan laws require the actual deposit or not.

Senator COUZENS. It could not have been done, could it?

Mr. LORD. Well, yes; it could have been done.

Senator COUZENS. Well, it was not done?

Mr. LORD. It was not done, so I assume it was not in the Michigan law, Senator Couzens.

Mr. PECORA. Let me also read this further provision from the same section of the Banking Laws of the State of Michigan:

> That he [meaning a director] is the owner in good faith of stock in the Trust Co. as required to qualify him for such office, standing in his name on the books of the Trust Co., and that such stock is not pledged as security for any debt.

Mr. LORD. I think that is a fact.

Mr. PECORA. Does not that provision of law require an unqualified ownership of the stock?

Mr. LORD. I do not see why it should.

Mr. PECORA. Sir?

Mr. LORD. I do not see why it should.

Mr. PECORA. Do you think that ownership of stock, coupled with the agreement that you have testified to, represents an unqualified ownership?

Mr. LORD. Yes: I do, Mr. Pecora. Certainly to the extent as required by the law.

Mr. PECORA. Now, I have what purports to be a photostatic reproduction of a letter addressed by Sherwin A. Hill, of the law firm of Warren, Hill & Hamblen, to Mr. Ransom E. Olds, president of the Capital National Bank, of Lansing, Mich., dated May 3, 1930,

which reads as follows, and I will read the entire letter to you, because it relates to this general subject [reading]:

WARREN, HILL & HAMBLEN,
Detroit, May 3, 1930.

RANSOM E. OLDS,
President the Capital National Bank,
Lansing, Mich.

DEAR MR. OLDS: Mr. Lord has handed me your letter of April 28 dealing with the matter of directors' qualifying shares.

I appreciate the force of all that you say in your letter, as well as the points covered in the memorandum enclosed, but I still feel that the arrangement which is being used relative to directors' shares is not in anywise in conflict with the requirements of the banking law.

The National Banking Act contains two requirements in respect to directors' shares:

(a) That each director must be the owner in good faith and in his own right of the number of shares of stock of the aggregate par value required by statute, standing in the director's name on the books of the association; and

(b) That such stock is not hypothecated or in any way pledged for any loan or debt.

The same requirements are set forth in the oath of office required of each director.

I think you will agree that there is nothing in the arrangement that interferes with requirement (b) as to nonhypothecating or pledging. Apparently doubt arises in your mind as to whether or not a director by signing the agreement with the Group Co. and formally depositing his stock, has done something to divest himself of his ownership in good faith of his qualifying shares.

The agreement which each director is asked to sign does not, if you will examine it carefully, in any way minimize or curtail his absolute unrestricted and sole ownership of the shares standing in his name. In fact it makes no reference to these at all. It is simply an undertaking on his part that upon the termination of his directorship he will deliver for exchange 10 shares of bank stock for a specified number of Group shares. It does not in anywise relate to any particular shares but is simply an executory undertaking on the director's part that upon the happening of the event he will produce 10 shares of bank stock for exchange. Nor does it seem to me that the provision in the agreement relating to payment of dividends in anywise affects the sole ownership in good faith of the bank shares. The Group Co. has undertaken to pay him dividends on Group shares set aside for delivery to him at some time in the future when he shall offer performance of his executory contract, and as a matter of convenience and to avoid duplication he assigns to the Group Co. the collection and receipt of dividends on the bank shares. As a matter of fact, a director (except for liability for breach of his executory contract) could at any time sell or dispose of the bank shares standing in his name without the consent or approval of the Group Co. were it not for the fact that under the arrangement in force the bank shares are endorsed in blank and deposited with an officer of the bank to be delivered to the Group Co. upon termination of his directorship.

It may be that you feel that the director's good-faith ownership of the qualifying shares is affected by his deposit of same with an officer of the bank under a receipt specifying their delivery to the Group Co. upon his ceasing to be a director. My own opinion is that this does not affect the matter of ownership in the sense as required by the statute, but if the members of your Board would feel more comfortable in not having to make formal deposit of these shares with an officer of the bank, whereby they are receipted for to be delivered to the Group Co. upon the happening of the event named, I am quite sure that this detail might be dispensed with in the event each director signs the agreement for exchange and andorses his stock in blank.

Please let me hear from you, and if desired, I shall be glad to discuss the matter with you on the first occasion when you are in Detroit, as I know you are down frequently. I am enclosing herewith copy of directors' agreement with the Group Co. as the same appears on the reverse side of the depositary's receipt. It is probable, however, that you have one of these before you.

Very truly yours,

SHERWIN A. HILL.

Mr. PECORA. Now, this letter would seem to indicate, Mr. Lord—and I ask you if it does not indicate—that in May 1930 a serious question arose as to the validity under the national banking laws and the Michigan laws of this agreement between directors of unit banks and the group. That is so, is it not, Mr. Lord?

Mr. LORD. I would not say that a serious question had arisen when a layman, a nonlawyer, asked the question as to the validity. It was a very natural thing for Mr. Olds to want to know that it was all right legally and that he was right about it.

Mr. PECORA. And he wrote to Mr. Hill, who was a member of the law firm of Warren, Hill & Hamblen, who was a director of the group?

Mr. LORD. If I understood that letter correctly, he wrote to me asking me, and I am also a layman.

Mr. PECORA. And then you passed the letter on to Mr. Hill?

Mr. LORD. And then I passed the letter on to Mr. Hill.

Mr. PECORA. For answer?

Mr. LORD. Yes, sir.

Mr. PECORA. Or for a legal opinion?

Mr. LORD. Yes, sir.

Mr. PECORA. On the question raised by Mr. Olds?

Mr. LORD. Yes, sir.

Senator GORE. You say you do not think it is a strange thing for a layman to write a letter propounding a legal inquiry like that. Do you think it is at all strange that a layman should address such a letter on a legal question to another layman?

Mr. LORD. No. It was quite natural because of the fact that I was president of the group. It is quite natural that he should write to me, Senator.

Senator GORE. One layman would seek legal advice from another layman?

Mr. LORD. Well, I do not think he asked it of me on the ground of my being able to give him legal advice.

Mr. PECORA. When a person was elected a director of the unit bank he had, of course, to be the owner of qualifying shares?

Mr. LORD. Yes, sir.

Mr. PECORA. And he got those shares from the group?

Mr. LORD. He may have gotten those shares from the transfer of the 10 shares that were in the other man's name, or he may have gotten them from the group company by surrendering a proper amount of group shares back in exchange for the 10 shares of qualifying, on the same basis that the original exchange had been made.

Mr. PECORA. Do you know of any instances where persons chosen as directors of a unit bank purchased the necessary number of qualifying shares with moneys loaned to them by the group?

Mr. LORD. I do not recall any, Mr. Pecora.

Mr. PECORA. It is now just past 1. Suppose we adjourn now and go into the question I was about to take up, at 2 o'clock.

The CHAIRMAN. Yes. The committee will take a recess until 2 o'clock.

(Thereupon, at 1 p.m. a recess was taken until 2 p.m. the same day, Tuesday, Dec. 19, 1933.)

AFTER RECESS

The subcommittee resumed at 2 p.m. on the expiration of the recess.

The CHAIRMAN. The subcommittee will resume. Mr. Pecora, you may proceed.

TESTIMONY OF ROBERT O. LORD, DETROIT, MICH.—Resumed

Mr. PECORA. Mr. Lord——

Mr. LORD (interposing). Mr. Pecora, may I make a comment on our discussion of this morning?

Mr. PECORA. Yes.

Mr. LORD. In regard to the directorate of the outstate banks, during the lunch time I checked over, from the report of 1931, and found that of the outstate banks the directors totaling 230, there were only nine that you might call Detroit representation. Of that number four were in Flint, and you know the circumstances surrounding the Flint difficulties on account of the defalcation there. I have included Mr. Brewer's directorship at Ionia as a Detroit representation although Mr. Brewer lives in Grand Rapids. In other words, 9 out of 230 does not seem to me to indicate domination.

Mr. PECORA. Mr. Lord, apparently you misconceived the purpose of my examination on that line this morning. It was not for the purpose of indicating, what I know was not the fact, namely, that Detroit men were put on the boards of those out-of-town local units, but rather that the set-up was such that the Group was in a position to dictate the personnel of boards of directors of all the unit banks.

Mr. LORD. I do not know who else could, for they were the stockholders.

Mr. PECORA. That is right. And that on occasion officers and board members of the Group exercised that power, and made some arbitrary changes in the personnel of state banks.

Mr. LORD. I conceive it to be their duty as stockholders to put in, under the 75 percent directors' rulings, the best directors that could be put in to operate in a conservative way the banks.

Mr. PECORA. But those "best directors" were serving under circumstances that made them aware at all times that they could sit on the boards of directors of the units only so long as it pleased the Group to have them sit, isn't that so?

Mr. LORD. As the principal stockholder, yes.

Mr. PECORA. Yes. And don't you think that that element tended to make the boards of the local banks, or the unit banks, subject at all times to the whim, caprice, decision, or determination of the Group?

Mr. Lord. No, I do not, and for the reason that there were practically no changes made in the old boards. And the Group looked to those directors to carry on those banks as they had previously carried them on. In spite of that power there was no exercise of it. I haven't checked the directors of the four institutions before the Group acquired stock and afterwards, but my guess is that a dozen or fifteen out of all the directors would cover any changes that were made, and those were normal changes.

Mr. PECORA. Now, one who was the unqualified owner of shares of stock upon which dividends were paid would receive such dividends, wouldn't he?

Mr. LORD. I did not hear the first part of your question.

Mr. PECORA. A person who is the unqualified owner of——

Mr. LORD (interposing). What do you mean by "owner"?

Mr. PECORA (continuing). Of shares of stock.

Mr. LORD. I do not know what you mean by "unqualified owner."

Mr. PECORA. An absolute and outright owner for his own beneficial right and interest.

Mr. LORD. Yes, sir; unless he assigned those dividends.

Mr. PECORA. Yes. Now, in case of persons who received from the Group the necessary shares to qualify them to act as directors of unit banks, those persons did not receive the dividends paid upon that stock by the unit banks, did they?

Mr. LORD. No, because they assigned the dividends.

Mr. PECORA. Exactly. In other words, they turned over all their dividends to the Group under this exchange plan.

Mr. LORD. Without changing the ownership of the stock, or affecting their ownership in any way.

Mr. PECORA. It left the ownership in their names, but divested them of some of the attributes of unqualified ownership.

Mr. LORD. Of the dividends, yes.

Mr. PECORA. Yes. How did those directors obtain their qualifying shares from time to time?

Mr. LORD. Well, I should say that in practically every case it was a retention of the original stock that they had.

Mr. PECORA. That is, the original Group stock?

Mr. LORD. No, sir; the original bank stock.

Mr. PECORA. The original bank stock?

Mr. LORD. Yes, sir. Now, take my own case: At the time of the formation of the Group, I was the owner of something over 100 units, between 100 and 200 of those units, of the Guardian Detroit, which carried with them the ownership in the bank of one fifth of a share for each share of bank stock in the trust company, and one full share in the securities company. When my stock was turned in to the Group, I retained 10 shares for my directorship and deposited them in escrow. In other words, I had the stock originally, and the Group Co. gave me back what the full amount would have been on the exchange, less my director's qualifying shares.

Mr. PECORA. You retained title to those qualifying shares, impressed with the condition of this agreement that you spoke of this morning?

Mr. LORD. Yes, sir.

Mr. PECORA. And that agreement was one which, in substance, provided that upon your ceasing to be a director those shares, of which you were the original owner and which you retained in order to become a director——

Mr. LORD (interposing). Yes, sir.

Mr. PECORA (continuing). No longer continued to be your property?

Mr. LORD. They were to be exchanged for shares of stock of the Group.

Mr. PECORA. Now. in the prepared statement which you read into the record this morning, Mr. Lord, pages 2 and 3 thereof, you said, among other things, as follows:

In view of this situation, in June of 1927 there was organized under the banking laws of the State of Michigan the Guardian Detroit Bank. Under the plan and subscription agreement there was sold unified stock. Each subscriber to stock in the Guardian Detroit Bank at the same time subscribed for an equal number of shares of Guardian Detroit Co., an investment affiliate, and for one fifth of the number of shares in Guardian Trust Co., a fiduciary institution which had been organized under the banking laws of the State abiut 2 years previously.

Then I will leave out the matter which immediately follows and pass on to this statement:

There were thus created three independent corporations owned by the same stockholders in no way subsidiary to each other.

What did you mean by the statement that:

There were thus created three independent corporations owned by the same stockholders in no way subsidiary to each other.

Mr. LORD. My understanding of that is that none of those corporations was owned by any of the other corporations.

Mr. PECORA. Well, all three of them were owned by the same stockholders.

Mr. LORD. Yes; by the same stockholders.

Mr. PECORA. So that instead of being subsidiary corporations they were affiliated corporations, weren't they?

Mr. LORD. I do not know how you would define "affiliated."

Mr. PECORA. Well, you did not mean to create the impression by this language that those corporations were actually three corporations operating independent of one another, did you? I mean when you referred to them as three independent corporations.

Mr. LORD. Independent so far as their ownership was concerned, but owned by the same stockholders. In other words, the bank did not own the stock of the trust company, nor did the trust company own the stock of the securities company. In other words, they were independent of each other. That was the intention of the statement.

Mr. PECORA. They were independent of each other as to corporate form?

Mr. LORD. That is what I meant.

Mr. PECORA. But they all had the same stockholders?

Mr. LORD. And each stockholder owned the same proportion in each organization.

Mr. PECORA. Yes. Well, because of that common ownership of the stock of the three companies you would not call them independent in their relations one toward the other, would you?

Mr. LORD. I would think so.

Mr. PECORA. Well, were not the officers and directors of each of these three so-called "independent corporations" selected by the same persons, namely, the common-stock holders of all three companies?

Mr. LORD. There were different directors in many of them.

Mr. PECORA. Weren't they all selected by the same persons, namely, the owners of the stock?

Mr. LORD. They were selected by the same persons because they were the same stockholders in the three corporations.

Mr. PECORA. Now, on page 5 of your prepared statement you stated, among other things, as follows:

In the early summer of 1929, in order to provide, among other things, an increase in capital of the securities company without at the same time increasing the capital of the bank or the trust company, neither of which institutions was in need of additional capital, there was organized the Guardian Detroit Group, Inc. The additional capital amounted to $3,694,500, and was raised: $747,000 through the acquisition of the entire capital stock of the R. O. L. Co.

Now, what was that R. O. L. Co.?

Mr. LORD. I will have to go into a little of the history of the matter in order to explain that. The Guardian Trust Co. was organized in May of 1925. In the fall of 1926 a plan was prepared for the organization of the Guardian Bank; that is, of the Guardian Detroit Bank, and for the unified ownership of the shares of the said bank—of the shares of the Guardian Trust Co. except directors' qualifying shares—and of the shares of the securities company.

The Guardian Detroit Bank was organized, and its articles approved by the banking commission on May 4, 1927, and subscriptions to the unified stock were made for the full number of shares, 50,000 shares of $100 par value. Under this plan the owner of the bank's stock became also the owner of a proportionate amount of the stock of the trust company and of the securities company. Under this arrangement for unified ownership a sale of the bank's shares carried with it a proportionate amount of the stock of the other two companies. Bank stock certificates contained a provision for this unified ownership, and also contained an indorsement by certain trustees evidencing the beneficial ownership of the proportionate amount of the stock of the trust company and of the securities company, all in accordance with the plan above referred to.

In the organization plan above referred to it was provided that in order to assure competent and interested management for said companies, each subscriber should waive, and by the execution of the subscription arrangement the subscribers did waive, all right to subscribe for additional shares, not to exceed 5,000, in order that such additional unified stock might be sold to members of the executive staff and employees of the three companies as might from time to time be designated by the directors of the bank, at such prices and subject to such restrictions as the directors might prescribe, the price, however, not to be less than the original subscription price of the unified stock.

Mr. PECORA. And what was that original price?

Mr. LORD. It was $249 a share. On or by June 1, 1927, agreements were entered into between the Guardian Detroit Bank and certain officers of those companies granting to such officers an option to purchase 3,000 shares of increased stock of the bank at a pro rata interest in the stock of the other two corporations, as unified stock, at $249 a share, the original issue price, this stock, if the options were exercised, to be an increase in the bank's stock.

Those stock-option contracts matured June 1, 1932. That is to say, the officer in whose favor the contract was made had until June 1, 1932, to elect whether or not to purchase any pay for such stock.

In the plan and subscription agreement the bank directors were not only authorized to sell up to 5,000 shares of such increased bank stock but were given an irrevocable proxy by the subscriber to create such additional stock.

On April 10, 1929, a plan was sent out to the holders of unified shares setting forth the proposal to organize the Guardian Detroit Group and to exchange Group shares for unified shares. One purpose set forth in this proposal was that of increasing the capital of the Guardian Detroit Company by the sale of additional shares of the new Guardian Detroit Group without increasing the capital of either the bank or the trust company.

In this proposal of April 10, 1929, reference is made to the outstanding option contracts for the purchase of 3,000 Guardian units at $249 per share, the original issue price, which contracts would mature in 1932 and which would necessitate an increase of the capital stock, which might not then be needed or desirable.

The proposal of April 10, 1929, contemplated the issuance of Guardian Group stock for Guardian units on the basis of 2 shares of the new stock, of $50 par value, for 1 Guardian unit. In order to do away with those options and avoid the necessity of increasing the bank's stock, in order to fulfill those options, it was proposed to issue 6,000 shares of Guardian Group stock, of $50 par value, at $124.50 per share, being the equivalent of 3,000 Guardian units at $249 per unit. In other words, it was desired to get rid of those stock-option contracts and get the holders thereof to pay in 1929 the full amount of $749,000, which would be payable upon the exercise of their options in 1932 if they should then elect to exercise them.

The holders of those stock-option contracts were not required to exercise their options until June 1, 1932, and had they not relinquished, as they did do, in 1929, they would have saved themselves $749,000 plus any liability for assessments thereon.

Mr. Pecora. Why do you say that?

Mr. Lord. Because the stock is worth it today.

Mr. Pecora. All right. You may proceed.

Mr. Lord. There was, therefore, a valuable advantage to them in having the right to purchase, but not under any obligations to purchase, Guardian units throughout the option period. The Guardian Group stock which was actually issued in exchange for the other shares, was given a $20 par value instead of a $50 par value as at first proposed; and instead of asking the option holders to subscribe for 6,000 shares of the Group at $124.60, they were asked to subscribe for 15,000 Group shares, of $20 par value, at $49.80 per share, the corresponding price.

As a part of the plan for issuing Group stock in exchange for the old Guardian units, there was offered to the stockholders of the Guardian Detroit Group additional shares equal to 10 percent of their holdings, after the exchange to be sold at $90 per share, of a par value of $20 each.

The holders of the stock option contracts were to have the same right, to subscribe at $90 per Group share, of $20 par value, for 10 percent of the Group shares, which they would subscribe and pay for in case they should be willing to surrender their option contracts and subscribe for Group stock at the original price of the Guardian units.

The essence of the transaction was that an officer held a valid contract granting him the option to purchase old Guardian units at $249 which during the period expiring June 1, 1932, was being asked to surrender that option and immediately subscribe for Guardian Group stock on the basis of the original unit price.

In order to assure the holders of those stock options of elimination of any possible income tax liability by surrendering their stock option shares before maturity and acquiring Group stock in place of the old units, advice was taken and the plan of organizing the R. O. L. Co. was adopted.

Now, as regards the R. O. L. Co., which was organized under the laws of Michigan, having 6,000 no par shares, those shares were acquired by the holders of stock option contracts, and the company received therefore $750.000 in cash and the assignment of the stock option contracts by the officers respectively holding the same. The holders of those 6.000 shares of the R. O. L. Co. then exchanged their shares for 15.000 shares of Guardian Group stock.

After this had been accomplished the Group Co. owned all the stock of the R. O. L. Co. The stock option contracts were canceled, and $747.000 was paid to the Group Co. as liquidating the outstanding shares, equivalent to $249 a share.

Mr. Pecora. For the 3,000 original units?

Mr. Lord. Yes, sir. The original holders of the stock options received 15,000 shares of Group stock, at the corresponding price of $249 a share, at which the old Guardian units had been directed to be sold to them during the period ending June 1, 1932.

Now, is that clear to you, Mr. Pecora?

Mr. Pecora. Mr. Lord, I noticed as you made that answer that you read from a typewritten manuscript. Who prepared that manuscript?

Mr. Lord. It was prepared by Mr. Bodman and myself.

Mr. Pecora. And Mr. Bodman is your attorney?

Mr. Lord. He is attorney for the Group.

Mr. Pecora. Who were the officers to whom you have referred to whom those were granted?

Mr. Lord. Do you want the amounts, too?

Mr. Pecora. Yes.

Mr. Lord. We will take it in the matter of the 15,000 shares rather than the 3,000, or in any way you may want it.

Mr. Pecora. Well, you may take it as of——

Mr. Lord (interposing). At the original option?

Mr. Pecora. All right.

Mr. Lord. I received as part consideration for my coming to Detroit 1,000 of those options. Mr. Kanzler received 500, Dr. Fred T. Murphy received 500, John C. Grier, Jr., received 500, C. A. Shepherd received 300, and James L. Walsh received 200, making the total of 3,000.

Mr. PECORA. Now, you have stated in the course of your prepared statement, this morning, that from time to time the Guardian Detroit Union Group, Inc., acquired various local banks in and out of the city of Detroit, but all in the State of Michigan, on an exchange of stock basis?

Mr. LORD. Yes.

Mr. PECORA. Did all the existing stockholders of those various unit banks turn in their shares for Group shares upon those acquisitions?

Mr. LORD. So far as I know as regards the Guardian Detroit Group, Inc., not the other. I do not know the facts about that, of course.

Mr. PECORA. What was the general method of procedure by which those acquisitions were effected?

Mr. LORD. The Group appointed a committee of three—but perhaps I better start back of that: If a bank was considered as qualifying from the standpoint of their standing, reputation, and goodness, negotitions were usually carried on originally with the heads of those particular institutions, to see whether they would be interested in becoming a member of the Group. If they were interested, and the members of their boards were satisfied to have their institutions become members of the Group, those banks appointed, each a committee of three, and the Group Co. appointed a committee of three, and the Group Co.'s committee examined the assets of the particular institution that was under consideration. The committee of three representing that bank were given full access to any information they wanted on the Group and on any of our institutions in the Group.

The basis of the exchange was not figured on the basis of the relative market value of the shares, but of the real worth of the shares based on the assets. Earning power was taken into consideration also in arriving at a basis that was mutually satisfactory.

The offer was made to the shareholders of the bank whose shares were sought to be acquired, and I believe in most cases that offer provided that it should become operative if and when 75 percent of the stockholders of that institution agreed to it. They were asked, if they agreed to it, to deposit their shares under a signed agreement. If the 75 percent was acquired the plan was declared operative.

That in brief was the way matters were handled.

Mr. PECORA. And as a banking unit was acquired in that fashion by the Group did the Group increase its capital stock in order to enable it to acquire such a new unit?

Mr. LORD. Mr. Pecora, I do not recall the exact increases, but my recollection is that the Group had authorized capital in excess at all times of their needs.

Mr. PECORA. Of the amount that it actually originally issued?

Mr. LORD. Yes, sir. As I recall it, the authorized capital was 600,000 shares to start. I may be mistaken. And finally ended with two and a half million shares authorized. Each issue of stock that was issued in exchange for the shares of the acquired stock was approved by the Michigan Securities Commission.

Mr. PECORA. On page 6 of your prepared statement that you read into the record this morning, you said, among other things, as follows:

The Guardian Detroit Group, Inc., was incorporated in May 1929 under the provisions of the general corporation laws Act 84, Public Acts of 1921, as amended, for the following purposes:

"To acquire, own, hold, dispose of, and deal in stocks, bonds, and other evidences of indebtedness and securities, including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereto all rights, powers, and privileges of individual owners thereof, including the right to vote the same and to execute proxies therefor."

Now, when was the amendment to that act of 1921 made you refer to here?

Mr. LORD. I don't know.

Mr. PECORA. Was it after the incorporation of Guardian Detroit Group, Inc.?

Mr. LORD. I cannot answer that. I don't know.

Mr. PECORA. Can you get the information from any of your associates to enable you to answer?

Mr. LORD. Could I supply it later?

Mr. PECORA. I beg pardon?

Mr. LORD. Could I try to supply it later for you?

Mr. PECORA. All right. Now, reference was made in the course of your testimony this morning to a corporation known as Keane, Higbie & Co., of Detroit, Mich. What sort of a company was that?

Mr. LORD. It was what was termed "an investment banking house."

Mr. PECORA. An investment banking house?

Mr. LORD. Yes, sir.

Mr. PECORA. Was that the development or the outgrowth of a stock brokerage firm or house?

Mr. LORD. I think it was the outgrowth of a municipal bond house, Mr. Pecora.

Mr. PECORA. On page 11 of your prepared statement you read into the record this morning you said as follows:

Admittedly, the institutions in the Guardian Detroit Union Group made many mistakes, but to the best of my personal knowledge mistakes of judgment.

Will you enumerate the mistakes you referred to therein?

Mr. LORD. I am afraid no one could enumerate the mistakes that were made in 1929 up to that time. I spoke of the principal mistake in starting the Group at the peak of the Nation's prosperity.

Mr. PECORA. Well, was it actually started at the peak of prosperity?

Mr. LORD. The consolidation of the Union Commerce Corporation.

Mr. PECORA. That became effective in December 1929?

Mr. LORD. Yes, sir.

Mr. PECORA. Which was 2 months after the first big slump in the stock market that precipitated or marked the opening of what we called this depression?

Mr. LORD. That is true, but negotiations for the consolidation of those two groups were started in September prior to that.

Mr. PECORA. But they had not been consummated prior to December?

Mr. LORD. They had been announced in the newspapers, if I remember correctly.

Mr. PECORA. But not consummated?

Mr. LORD. I realize that.

Mr. PECORA. The consummation did not take place until December 16, 1929?

Mr. LORD. December 1929.

Mr. PECORA. And that was when the depression after this——

Mr. LORD (interposing). All right; perhaps it was a mistake that we did not call off the consolidations, but nobody at that time expected the depression to continue as it has or expected the severity of the depression as it proved.

Mr. PECORA. Now you have mentioned one outstanding mistake. What were some of the other of the "many mistakes" you referred to on page 11 of your statement?

Mr. LORD. I would say, among other things, it was a mistake for those institutions to own a joint-stock land bank.

Mr. PECORA. To own what?

Mr. LORD. A joint-stock land bank. There was the Union Joint Stock and the Ohio-Pennsylvania Joint Stock. It was a different type of banking institution. We did, however, dispose of those at some later date.

The CHAIRMAN. How much stock did you take in those banks?

Mr. LORD. I can give you the number of shares, I think.

The CHAIRMAN. How much did it cost you?

Mr. LORD. I haven't the details on that, Senator. Those institutions were acquired by the Union Commerce Corporation.

The CHAIRMAN. What became of that stock?

Mr. LORD. That stock was traded back for Group shares.

The CHAIRMAN. Traded back to whom?

Mr. LORD. Mr. Blair and his associates.

Senator ADAMS. Mr. Lord, a mere matter of definition, but you spoke of the apparent mistake of incorporating the organization at what you call the "peak of national prosperity." Is "prosperity" quite the correct term for what was existing at that time? I say it is purely a matter of definition.

Mr. LORD. I considered that there was prosperity up till the summer of 1929. Everybody thought they were rich. Maybe they were not.

Senator ADAMS. It was the "national delusion" perhaps, rather?

Mr. LORD. I think you are right.

Mr. PECORA. What were others of these "many mistakes" that you have allusion to in your prepared statement?

Mr. LORD. I did not detail them, Mr. Pecora.

Mr. PECORA. I know you did not detail them in your prepared statement. That is why I am asking you now to do so.

Mr. LORD. I did not in my own mind. I think it was a mistake for any banks, commercial banks, to take such a substantial amount of mortgages. Mortgages are perfectly safe investments, but not for an institution which has demand deposits. Mortgages should be carried by institutions in the nature of life insurance companies or mortgage banks which are distinctly mortgage banks, and not by commercial banks.

Mr. PECORA. Why was such a policy adopted?

Mr. LORD. It was an inheritance of many years, and it was the practice in Detroit to loan on real estate, on homes, and it was our mistake, sir.

Mr. PECORA. Will you enumerate such other mistakes as composed the "many mistakes" you referred to?

Mr. LORD. I think one mistake that we made was that we did not liquidate our securities companies immediately in 1929.

Mr. PECORA. Any others that you think of?

Mr. LORD. None in detail that I can recall at this time. I suppose if I went through I could pick out a lot more.

The CHAIRMAN. Could you have liquidated your securities?

Mr. LORD. Some of them, yes. But everyone felt, the general opinion was, that the depression was temporary and that recovery was a matter of a few weeks or months.

Senator ADAMS. Very high-grade authorities for that?

Mr. LORD. On very high-grade authority.

Mr. PECORA. After the consolidation of the Guardian Detroit Group, Inc., and the Union Commerce Corporation into the Guardian Detroit Union Group, Inc., what was, at their peak, the highest amount of resources controlled by the Guardian Detroit Union Group, Inc.?

Mr. LORD. I am sorry I cannot answer that. I think it was over 500 million, taking all the institutions.

Mr. PECORA. And what at their peak was the aggregate amount of deposits in the unit banks that were combined in this group?

Mr. LORD. My recollection is somewhere upwards of 420 million.

Mr. PECORA. Can you tell the committee in how many different cities or communities throughout the State of Michigan the Group controlled or owned bank units?

Mr. LORD. My recollection is 16. I could tell them by checking it up.

Mr. PECORA. And how many separate unit banks were comprehended in the Group?

Mr. LORD. At the start or at the time of the holiday, Mr. Pecora?

Mr. PECORA. Well, say at their peak first, the peak number?

Mr. LORD. I cannot answer that. I think there were 27.

Mr. PECORA. There were 10 national banks, 10 state banks, 7 securities companies, 2 joint stock land banks, 3 building companies, a title company, and a safe-deposit company, were there not?

Mr. LORD. That sounds about correct; yes, sir.

Mr. PECORA. Now, what was the original issuing price of the shares of the Group?

Mr. LORD. You mean the par value?

Mr. PECORA. The original issuing price.

Mr. LORD. There were no shares of the Group sold to the public, of the Guardian Detroit Group, except on that 10 percent subscription under which they were sold at $90 per share.

Mr. PECORA. To whom were those shares originally distributed?

Mr. LORD. They were distributed to the then stockholders.

Mr. PECORA. Of the banks that had been acquired?

Mr. LORD. No; that started the Group. On the subscription rights that were distributed to then stockholders of the Group who had been stockholders of the banks acquired.

Mr. PECORA. That is the group composed of three institutions whose ownership is covered by the unified stock?

Mr. Lord. Yes, sir. You see, that was turned into Group stock, and Highland Park Institutions were acquired, and those stockholders were given the right to subscribe to the extent of 10 percent of their holdings.

Mr. Pecora. Now, what sources of income did the Group have after it consolidated with the Union Commerce Corporation on December 16, 1929?

Mr. Lord. It was principally from the dividends on the stock of the institutions.

Mr. Pecora. You say that was its principal income?

Mr. Lord. That was its principal income.

Mr. Pecora. Did it have income from other sources?

Mr. Lord. It had income from its cash and minor assets that it might have, but that did not amount to a great deal as compared with the dividends from its units.

Mr. Pecora. Did the Group receive any payments from any of the unit banks for services of a supervisory or advisory nature?

Mr. Lord. I think at one time there was a slight service charge made, and the basis on which it was made and the amount I do not recall, Mr. Pecora. That did not come under my scope, the arrangement there.

The Chairman. You mean to say that of these upwards of 420 millions of deposits, 65 percent have been paid?

Mr. Pecora. No: he was referring this morning in that testimony to only one bank.

Mr. Lord. Just to the Guardian National Bank of Commerce of Detroit, Senator Fletcher.

Mr. Pecora. How much of these deposits have been paid, of the 420 million?

Mr. Lord. I can only give you a very rough estimate. At the peak of 420 million, the aggregate deposits that are held unpaid today and are tied up in the course of being paid through liquidation of banks that are closed or are in the hands of conservators, would run somewhere, as I recall it, around 90 million dollars. All the rest of it has either been paid back or is in banks that are paying a hundred percent, and you or I, who care to, can go in and get our money any time we want. That is merely an estimate, but I think that would be approximately correct, about 90 million dollars.

The Chairman. You mean to say the depositors have lost about 90 million?

Mr. Lord. They have not lost it, because that is in course of liquidation in those banks.

Mr. Pecora. Now, did the directors and officers of the Group exercise any control over the declaration of dividends by the unit banks?

Mr. Lord. Exercise any control?

Mr. Pecora. Yes.

Mr. Lord. No, sir.

Mr. Pecora. Did they exercise any judgment at all with respect to the declaration of dividends by the unit banks?

Mr. Lord. They frequently suggested to the board the amount which they should consider in the matter of dividends.

Mr. PECORA. How frequently were such suggestions made to the various unit banks?

Mr. LORD. I assume every dividend date, because the units wanted to know what their contribution was to be.

Senator COUZENS. Contribution to what?

Mr. LORD. To the income of the Group Co., Senator Couzens.

Mr. PECORA. That is, the Group Co., in order to pay dividends to its stockholders, had to first receive dividends from the unit banks?

Mr. LORD. That is correct, sir.

Mr. PECORA. And the amount of dividends paid by the Group to its stockholders depended almost entirely upon the amount of dividends that the Group received from the unit banks?

(Mr. Lord made no reply to the question.)

Mr. PECORA. I have what purports to be a copy of a resolution which was adopted by the board of directors of the Guardian Detroit Group, Inc., on June 14, 1929, as appears from page 39 of the minute book of that company. Will you look at it and tell me if you recognize it to be a true and correct copy of the resolution so adopted on that date?

Mr. LORD (after examining document). Mr. Pecora, I would not know whether it was.

Mr. PECORA. What is that?

Mr. LORD. I would not know whether that is correct or not. I haven't the original of the minutes. I assume it was copied by your representatives and it is corre t. I do not know whether it is correct. I haven't the original minutes here.

Mr. PECORA. Well, we have what purports to be a photostatic reproduction of page 39 of the minute book of the board of directors of the Guardian Detroit Group, Inc., reciting that resolution. Will you look at it and tell us if you recognize that to be a true and correct copy of that page of the minute book?

Mr. LORD (after comparing documents). That seems to be correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered on the record.

(Typewritten sheet purporting to be a copy of page 39 of Minute Book of Guardian Detroit, Group, Inc., was thereupon designated "Committee Exhibit No. 5, December 19, 1933.")

Mr. PECORA. I will read page 39 of the minute book into the record:

Meeting of the directors of the above-named company—

Namely, Guardian Detroit Group, Inc.—

held June 14, 1929, in the office of the company, Penobscot Building, Detroit, Mich., at 12:15 p.m.

Meeting of the board of directors of the Guardian Detroit Group, Inc., was held at the time and place above named.

Mr. H. E. Bodman, chairman of the board, presided, and L. K. Walker acted as secretary of the meeting.

All of the directors of the company were present except Mr. Edsel D. Ford.

A waiver of notice of the meeting, signed by Mr. Ford, was presented and ordered placed on file.

The following resolution was offered, and being duly seconded, was unanimously adopted:

"Whereas dividends have been declared upon the stock of Guardian Detroit Bank, Guardian Trust Co. of Detroit, Guardian Detroit Co., Highland Park State Bank, and Highland Park Trust Co., payable in each instance June 28, 1929; and

"Whereas this company will be in receipt of funds resulting from the payment of such dividends sufficient to cover the dividends hereinafter declared: Now therefore be it

"*Resolved*, That a regular dividend of 50 cents per share and an extra dividend of 25 cents per share be and the same are hereby declared upon the stock of this company payable July 1, 1929, to stockholders of record at the close of business June 20, 1929."

There being no business to come before said meeting, same is adjourned.

L. K. WALKER, *Secretary.*

From time to time, Mr. Lord, did you, as the president of the Group, convey requests, both orally and in writing, to various bank units in the Group suggesting the dividend rate which such bank units should declare?

Mr. LORD. I think I conveyed suggestions to the board for their consideration.

Mr. PECORA. Were those suggestions ever rejected?

Mr. LORD. I would say that they were in cases.

Mr. PECORA. In about what proportion of the cases did a rejection of the suggestion follow.

Mr. LORD. I would say a very small proportion, because the suggestions were always reasonable.

Mr. PECORA. Now I show you what purports to be a photostatic copy of a letter addressed by you as president of the Group to Mr. John N. Stalker, president of the Union Guardian Trust Co. of Detroit, dated June 4, 1930. Will you look at it and tell me if you recognize it to be a true and correct copy of such a letter sent by you to Mr. Stalker on or about that date?

Mr. LORD. It is pretty difficult to read, Mr. Pecora. Is this the only copy you have of it?

Mr. PECORA. Yes.

Mr. LORD (after perusing document). I would think that was the true and correct copy.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Photostat of letter from Robert O. Lord to John N. Stalker, dated June 4, 1930, was thereupon designated "Committee Exhibit No. 6, December 19, 1933.")

Mr. PECORA. The letter received in evidence as Committee's Exhibit No. 6 reads as follows:

JUNE 4, 1930.

Mr. JOHN N. STALKER.
President Union Guardian Trust Co.,
Detroit, Mich.

DEAR MR. STALKER: To provide for the dividend requirement of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, a dividend should be declared at the June meeting of your board of directors. I would suggest, therefore, that it would be in order for your Board to declare a quarterly dividend equal to 20 percent annually.

This dividend should be payable not later than June 27, 1930, to stockholders of record, June [it appears to be] 16, and a check for $248,024.00 covering the shares standing in the name of Guardian Detroit Union Group, Inc., as well as directors qualifying shares, the dividends on which have been assigned to us, should be in the hands of Mr. B. K. Patterson, treasurer, Penobscot Building, Detroit, Mich., on the 27th instant or on the day following.

Please be good enough to promptly confirm this arrangement and advise me upon the declaration of your dividend.

Yours very truly,

Signed, I take it, by you as president.

Now, did you after you sent this letter to Mr. Stalker, receive from him a reply in writing, a photostatic copy of which I now show you?

Mr. LORD (after perusing document). I assume this came to me.

Mr. PECORA. I offer that in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Letter dated June 5, 1930 from John N. Stalker to Robert O. Lord was thereupon designated " Committee Exhibit No. 7, December 19, 1933 ".)

Mr. PECORA. The letter just received in evidence as committee's Exhibit No. 7 reads as follows, on the letterhead of Guardian Detroit Union Group, Inc. [reading]:

INTRAGROUP MEMORANDUM

Date: June 5, 1930.
To: Mr. Robert O. Lord.
From: Mr. John N. Stalker.

DEAR MR. LORD: We have your letter of the 4th instant with respect to the 5 percent quarterly dividend, which you suggest that we pay this month. I presume a dividend of this amount is necessary to the fulfillment of your plan and the officers are prepared to recommend it to the Board. However, as you are aware, a dividend of this amount has not been earned. In addition to that, the Trust Company is setting up no reserves and we feel that is not as it should be. There is no doubt in my mind that the company will suffer some losses.

I want to bring up at this time, so that it will not be overlooked, the fact that in turning over our Bond Department to the Guardian Detroit Company we lost a very important source of earnings, which even under present conditions would mean over $300,000 per year. Were our earnings sufficient to justify dividends at the annual rate of 20 percent, we would not raise a question of the loss in income from the Bond Department, but under the circumstances, we feel that the Trust Company is entitled to and must have some relief the latter part of the year.

JOHN N. STALKER.

Mr. PECORA. When you received this letter from Mr. Stalker in which he pointed out that the suggested dividend rate of 20 percent per annum which was embodied in your letter to Mr. Stalker of June 4, 1930, had not been earned, and that no reserves had been set up by the company, what did you do about the matter?

Mr. LORD. Have you no further correspondence on the subject?

Mr. PECORA. Have you no recollection?

Mr. LORD. I have no recollection. I assumed the company had a substantial undivided profit account from which it could pay its dividend.

Mr. PECORA. And you are willing to assume that the directors of this unit bank, despite the fact that its president had brought to your attention immediately upon receipt by him of your letter suggesting, as you call it, a dividend declaration at the rate of 20 percent per annum, carried out your suggestion?

Mr. LORD. Mr. Pecora, I assumed that the directors of the Union Guardian Trust Co. used their judgment in the declaration or nondeclaration of the dividend.

Mr. PECORA. And their judgment coincided with your suggestion, did it not?

Mr. LORD. Apparently. I have no record to show whether that amount was declared at that time.

Mr. PECORA. And that despite the fact that its president, upon receipt of your suggestion, pointed out the bad practice involved in declaring a dividend at a rate exceeding its earnings?

Mr. LORD. I would not call it bad practice if they had a substantial undivided profit account.

Mr. PECORA. This took place in June 1930?

Mr. LORD. Yes, sir.

Mr. PECORA. The general business conditions were not good at that time, were they?

Mr. LORD. They were better, as I recall it. We had quite a bulge in June 1930.

Mr. PECORA. Did they seem to be better in view of the fact that Mr. Stalker called your attention to a falling off in earnings?

Mr. LORD. I cannot answer your question, Mr. Pecora. I assume that the directors, if they had not thought it was proper to declare a dividend, would not have declared it.

Mr. PECORA. Do you think that the directors were influenced in their judgment by the suggestion that you made to them?

Mr. LORD. No, I do not—not those directors.

Mr. PECORA. Did you suggest to the directors or to Mr. Stalker that, despite the fact that the earnings were not at a rate which would justify the declaration of a dividend at the rate that you suggested, they should make that good out of undivided profits or surplus?

Mr. LORD. I do not recall, sir.

Mr. PECORA. But in any event, that is what they did?

Mr. LORD. Accepting your statement; yes.

Mr. PECORA. And that despite the fact that coupled with a falling off in earnings the bank had not set up any reserves against losses or depreciation of securities value?

Mr. LORD. Might I make this comment? As I recall it, the Guardian Trust Co. and the Union Trust Co. were consolidated in the spring of 1930. I may be incorrect about that. It is quite likely that the board of directors figured sufficient earnings and savings in expenses to justify that dividend—savings through the consolidation of those two institutions.

Mr. PECORA. Didn't you notice in this memorandum addressed to you by Mr. Stalker that he said—

> Were our earnings sufficient to justify dividends at the annual rate of 20 percent, we would not raise the question of the loss in income from the bond department.

Mr. LORD. May I hear your question again?

Mr. PECORA. Did you notice that statement of Mr. Stalker and give it any thought?

Mr. LORD. I assume I did, sir.

Mr. PECORA. Was the thought that you gave it of a character which led to the conclusion that you should insist upon the observance of the suggestion that you made about the dividend rate that should be declared?

Mr. LORD. I do not recall whether my suggestion was made direct to the board of directors or whether Mr. Stalker discussed the matter with his own board of directors and they took that action, or not. That was—what? Nearly 4 years ago?

Mr. PECORA. Three and a half years ago.

Mr. LORD. I can only answer on this assumption, that the facts were laid before that board of directors and their conclusions were that if they did declare the dividend it was a proper declaration.

Mr. PECORA. Mr. Stalker in his memorandum to you also said:

> However, as you are aware, a dividend of this amount has not been earned.

You were aware of that fact, were you not—that the dividend rate had not been earned?

Mr. LORD. I was told that.

Mr. PECORA. Did you, in the face of that, continue to advance the suggestion that the dividend rate be declared according to your idea of it?

Mr. LORD. Mr. Pecora, I do not recall whether there was any further suggestion after the original letter to which Mr. Stalker replied. Have you any further letter from me on the subject?

Mr. PECORA. Have you no further recollection of the matter?

Mr. LORD. I have not, sir.

Mr. PECORA. Let me call your attention to this further statement in Mr. Stalker's memorandum to you:

> I presume a dividend of this amount (namely, 5 percent quarterly or 20 percent annually) is necessary to the fulfillment of your plan.

What was that plan?

Mr. LORD. I do not know what he was talking about, except the budget, to carry the Group companies' dividend and whatever expenses they had.

Mr. PECORA. Well, conceivably was the plan referred to by Mr. Stalker in his memorandum to you one whereby the Group's board of directors had to determine upon the amount of dividend that the Group would pay to its stockholders, and in order to enable the Group to pay that amount of dividend it called upon the unit banks to make certain dividend declarations to meet the requirements of the Group dividend?

Mr. LORD. Mr. Pecora, I know of no cases where the group determined in advance what the dividends should be, except for a few days, based on the report of the directors.

Mr. PECORA. Perhaps repeating the following sentence from your letter of June 4, 1930, to Mr. Stalker would serve to refresh your recollection on this subject; so I will read it to you:

> DEAR MR. STALKER: To provide for the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, a dividend should be declared at the June meeting of your board of directors. I would suggest, therefore, that it would be in order for your board to declare a quarterly dividend equal to 20 percent annually.

Mr. LORD. For that quarter.

Mr. PECORA. I beg your pardon?

Mr. LORD. At the rate for that quarter.

Mr. PECORA. Yes. I am reading your letter now.

Mr. LORD. For that particular quarter.

Mr. PECORA. You state specifically here that to provide for the dividend requirements of the Guardian Detroit Union Group, Inc., you suggest to Mr. Stalker's board that they declare a quarterly dividend at the rate of 20 percent per annum.

Mr. LORD. That is correct.

Mr. PECORA. Does not that indicate, Mr. Lord, that the dividend policy of the Group was such that, first, the Group determined what dividend it wanted to pay or deemed it advisable to pay to its own stockholders, and then passed the word along by way of suggestion, if you please, to the boards of directors and executive officers of the unit banks to have them declare appropriate dividends to enable the Group to pay its dividend to its stockholders?

Mr. LORD. Mr. Pecora, it was not possible for the Group to determine what it wanted to pay in the way of dividends without having more or less accurate estimates and figures as to the earnings of the units. As I recall it, the dividend that was declared in April of 1930 was an 80-cent dividend.

Mr. PECORA. That is, a quarterly dividend?

Mr. LORD. At the rate of $3.20 per annum.

Mr. PECORA. That was on shares having a par value of how much?

Mr. LORD. On shares having a par value of $20.

Mr. PECORA. Which was an annual dividend rate of how much on the par value?

Mr. LORD. Sixteen percent, in round figures. It was a normal and natural thing that any board of directors or any management would want to continue dividends at the rate started. But certainly——

Mr. PECORA. Would it want to do that regardless of earnings?

Mr. LORD. It would not.

Mr. PECORA. I did not mean to interrupt you. You said, "But certainly"——

Mr. LORD. No; it would not, regardless of earnings. It would not want to do it regardless of earnings. That would not be sound.

Mr. PECORA. But is not that exactly what was done in this instance, in the making of this suggestion of yours originally made under date of June 4, 1930, to the president of the Union Guardian Trust Co.?

Mr. LORD. There was no reason why that board of directors should accept that suggestion.

Mr. PECORA. What was the reason for your renewing the suggestion after Mr. Stalker informed you, or reminded you, rather, of what apparently you already knew, namely, that the bank had not earned a dividend at the quarterly rate of 20 percent?

Mr. LORD. Did I renew the suggestion, or was the matter discussed with the board and they approved it? I do not know, Mr. Pecora. I do not recall. I am asking that as a question.

Mr. PECORA. Well, on that perhaps your recollection will be refreshed by what I now show you, and that is what purports to be a photostatic reproduction of a memorandum addressed to you by Mr. Stalker under date of June 26, 1930. Will you look at it and tell us if you recognize that as a true and correct copy of such a memorandum received by you from Mr. Stalker?

Mr. LORD. I do not quite get the connection with this other side.

Mr. PECORA. Do you recognize that as being a true and correct copy of a memorandum that you received?

Mr. LORD. I presume it is. It is addressed to me.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It may be received.

(Photostatic copy of memorandum addressed to Mr. Lord by Mr. Stalker under date of June 26, 1930, was received in evidence, marked "Committee Exhibit No. 8, December 19, 1933.")

Mr. PECORA. The memorandum received in evidence as Committee's Exhibit No. 8 of this date reads as follows: It is on the letterhead of the Guardian Detroit Union Group, Inc., Intra-Group memorandum to Mr. Robert O. Lord from Mr. John N. Stalker, dated June 26, 1930 [reading]:

COMMITTEE EXHIBIT NO. 8

GUARDIAN DETROIT UNION GROUP, INC.

INTRA-GROUP MEMORANDUM

Date: June 26, 1930.
To: Mr. Robert O. Lord.
From: Mr. John N. Stalker.

MY DEAR BOB: I commented in a recent letter on the matter of the dividends which should be paid by the Union Guardian Trust Company the latter half of this year. The loss of our Bond Department affects our earnings very seriously. For the five years from 1925 to 1929 inclusive, the net earnings of that department after the payment of expenses average a trifle over $296,000.00 a year. If we had those earnings today, I believe we could pay a 20 percent dividend or $1,000,000.00 a year. We do not in any way question the transfer of the Bond Department to the Guardian Detroit Company. This seems to us logical and proper. The effect on our earning capacity, however, cannot be ignored.

As against $500,000.00 in dividends which we are paying the first six months of this year, our earnings will probably not run over $425,000.00 and this without setting up any reserves at all. Our policy in the past has always been to set up liberal reserves, although we were fortunate enough to need them only to a very limited extent. At the present time we feel that reserves are rather urgently required, and find ourselves unable to provide them.

Mr. Blair and I are of the opinion that for the last half of this year, dividends aggregating $400,000.00 or at the annual rate of 16 percent is the maximum that this company should undertake to pay. This would make 18 percent for the year. As our accruals for the next dividend period should commence the first of next month, we would be glad to get your opinion and advice on this subject.

JOHN N. STALKER.

Now, from this letter it would appear, would it not, that the bank, Mr. Stalker's bank, that is, the Union Guardian Trust Company, had adopted your suggestion embodied in your letter of June 4, 1930, that they declare a quarterly dividend at the annual rate of 20 percent?

Mr. LORD. I do not recall what the directors did declare. I would say that——

Mr. PECORA. Does not Mr. Stalker in this memorandum to you specifically say that the dividend they had declared for the first half of the year, which included the quarter that you wrote to him about under date of June 4, amounted to $500,000, which was at the rate of 20 percent per annum?

Mr. LORD. Yes.

Mr. PECORA. Does it seem to you, Mr. Lord, that when Mr. Stalker in his letter to you of June 5, 1930, pointed out in response to your suggestion that the quarterly dividend be at the 5 percent rate or 20 percent per annum, that they were not earning that much and that no reserves had been set up, that nevertheless he recommended your suggestion to his board of directors because it was your suggestion?

Mr. LORD. I would not think so.

Mr. PECORA. And not his judgment?

Mr. LORD. I would not think so; no. It was apparently the judgment of the board that the dividend should be declared; and the basis on which Mr. Stalker recommended it to the board I do not know. I suppose that whatever he recommended was sincere.

Mr. PECORA. If it was the judgment of the board or Mr. Stalker's judgment that it should be recommended to the board, what do you suppose he meant when he wrote to you on June 5, 1930, pointing out that you were suggesting a dividend rate in excess of earnings and that the company had set up no reserve against loss? What did you think he was writing that letter to you for—in order to express his hearty approval of your suggestion?

Mr. LORD. No; I presume not.

Mr. PECORA. What did you suppose he wrote it to you for, then, Mr. Lord?

Mr. LORD. To give me his own personal reaction to that suggestion.

Mr. PECORA. But was there not at least a mild suggestion from him that you ought to revise your suggestion to his board?

Mr. LORD. I do not know that there was.

Mr. PECORA. You did not so construe it, anyway?

Mr. LORD. No. I construed that the board would make up their own mind about the declaration of the dividend.

Mr. PECORA. You had already made up your mind and passed it on to the board?

Mr. LORD. As a suggestion, purely.

Mr. PECORA. Which was followed, though, despite the circumstances, the unwisdom pointed out by Mr. Stalker in his reply to your letter. Is not that so?

Mr. LORD. Apparently.

Mr. PECORA. As a matter of fact, Mr. Lord, was it not the invariable custom and policy of the Group at about the time that the Group was making or had made its dividend declarations to its own stockholders to send communications generally similar in form to this one of June 4, 1930, which you sent to Mr. Stalker, to the executive heads or officers of all of the unit banks?

Mr. LORD. You stated in the first, about the time the Group had declared its dividend to its stockholders? No; I do not think so, Mr. Pecora. I think that a few weeks before the dividend date had arrived a suggestion was sent to the unit banks as to the amount which we would like to have them put before their boards for their consideration.

Senator COUZENS. What is the deposit liability of the Union Guardian Trust Co. at this time?

Mr. LORD. At present?

Senator COUZENS. Yes.

Mr. LORD. I cannot answer that, Senator. I am sorry.

The CHAIRMAN. Is there any stockholders' liability?

Mr. LORD. Five million dollars of stock.

The CHAIRMAN. Yes; but what does the law require?

Mr. LORD. The State law?

The CHAIRMAN. Yes.

Mr. LORD. The same as the national law—double liability.

Senator COUZENS. Has any double liability been paid yet?

Mr. LORD. I think so, Senator.

Mr. PECORA. Mr. Lord, I show you what purports to be a photostatic reproduction of a letter addressed by you under date of March 4, 1930, to Mr. Frank Brandon, president of the City National Bank & Trust Co. of Niles, Mich. Will you look at it and tell me whether you recognize it to be a true and correct copy of such letter sent by you to Mr. Brandon on or about March 4, 1930?

Mr. LORD. I would think so.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It will be admitted.

(Photostatic copy of letter dated March 4, 1930, to Mr. Frank Brandon from Robert O. Lord, was received in evidence, marked "Committee Exhibit No. 9, December 19, 1933.")

Mr. PECORA. The letter received in evidence as Committee's Exhibit No. 9 of this date reads as follows [reading]:

COMMITTEE EXHIBIT NO. 9

MARCH 4, 1930.

Mr. FRANK M. BRANDON,
President City National Bank & Trust Co., Niles, Mich.

DEAR MR. BRANDON: To provide the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, the dividend should be declared at the March meeting of your Board of Directors. I would suggest, therefore, that it would be in order for your board to declare a dividend of 2½% for this quarter. This dividend should be payable not later than March 27th to stockholders of record March 17th, and a check to cover the dividend on the shares standing in the name of Guardian Detroit Union Group, Inc., as well as the shares standing in the names of your directors, should be in the hands of Mr. B. K. Patterson, Treasurer, Penobscot Bldg., Detroit, on that date or on the date following. Your proportionate share of the expenses of the Group Company, incurred on account of services rendered by that company, will be figured and a memorandum sent you at a later date.

Please be good enough to promptly confirm this arrangement and advise me upon the declaration of your dividend.

Very truly yours,

——— ———, *President.*

You signed that, I presume, as president, did you, Mr. Lord?

Mr. LORD. I presume so.

Mr. PECORA. Comparing the phraseology of this last letter, exhibit no. 9, the one that I have just read, with the phraseology of your letter to Mr. Stalker marked "Exhibit No. 6", it would seem that the leters are practically identical in form. Does that occur to you, Mr. Lord, as being the fact?

Mr. LORD. Somewhat; yes.

Mr. PECORA. Was this a form letter that was used by the Group in order to advise the officers of the unit banks what dividends they should declare?

Mr. LORD. I would not call it a form letter; no.

Mr. PECORA. Was it by accident that practically the identical phraseology is used in these letters?

Mr. LORD. I would think so; yes. I do not recall that there were ever any form letters used on that.

Mr. PECORA. Perhaps a similar accident occurred when this letter was drafted to Mr. Stalker and sent on March 4, 1930, a photostatic copy of which I now show you, and which I ask you to please look at and tell me if it is a true and correct copy of such letter.

Mr. LORD. I do not get your point on the form letter, Mr. Pecora. They are expressed very much in the same way, almost identically.

Mr. PECORA. Would not that indicate that a form of letter suitable for this purpose had been prepared and was being consistently used?

Mr. LORD. I do not think so.

Mr. PECORA. Then the drafting of these letters in identical phraseology was always an accident—or was it by design?

Mr. LORD. I do not know that it was an accident. I may have told my secretary to get out some previous letters that had been written on the question of dividends, and he may have read the letter and said that was the simplest.

Mr. PECORA. Is not that another way of saying a form letter was used on these occasions?

Mr. LORD. I would not think so, Mr. Pecora.

Mr. PECORA. The same form of letter was followed in all these instances.

Mr. LORD. The same general language; yes, sir.

Mr. PECORA. I offer in evidence the letter which has just been shown the witness.

The CHAIRMAN. Let it be marked.

(The document referred to, letter, Mar. 4, 1930, Lord to Stalker, was received in evidence, marked "Committee Exhibit No. 10", Dec. 19, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter last offered in evidence as exhibit no. 10, of this date, is as follows [reading]:

MARCH 4, 1930.

Mr. JOHN N. STALKER,
President, Union Trust Company,
Detroit, Michigan.

DEAR MR. STALKER: To provide the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, the dividend should be declared at the March meeting of your Board of Directors. I would suggest, therefore, that it would be in order for your board to declare a dividend of 4 percent for this quarter. This dividend should be payable not later than March 27th to stockholders of record March 17th, and a check to cover the dividend on the shares standing in the name of Guardian Detroit Union Group, Inc., as well as the shares standing in the names of your directors, should be in the hands of Mr. B. K. Patterson, Treasurer, Penobscot Bldg., Detroit, on that date or on the day following. Your proportionate share of the expenses of the Group Company, incurred on account of services rendered by that company, will be figured and a memorandum sent you at a later date.

Please be good enough to promptly confirm this arrangement and advise me upon the declaration of your dividend.

Yours very truly,

——— ———, *President.*

Signed by you as president.

I notice that the language of this letter is identical with the language of the other letter—not generally the same, but actually the same.

Mr. LORD. Is there any objection?

Mr. PECORA. I am not offering any objection. I am simply trying to develop the facts as to whether or not a form of letter had

been agreed upon and prepared and consistently used in all these instances.

Mr. LORD. I do not think I know of any discussion ever had on that form of letter. Probably it was my own dictation of the letter, my own thought in the letter, my own way of expressing it.

Mr. PECORA. Did you have this phraseology memorized?

Mr. LORD. No. I probably took preceding letters.

Mr. PECORA. And told your secretary to follow that language?

Mr. LORD. Yes.

Mr. PECORA. You still would not call that the adoption of a form letter.

Mr. LORD. No; because every letter sent out was not that way, was it?

Mr. PECORA. What is that?

Mr. LORD. Was every letter sent out in regard to dividends exactly like that?

Mr. PECORA. Every one I have seen.

Mr. LORD. I have no copies of the correspondence, Mr. Pecora, except what you have shown me.

Mr. PECORA. Were you the author of this form of letter? I will not call it a form letter. I will call it a form of letter.

Mr. LORD. I assume I was, if I signed it. I do not know, Mr. Pecora.

Mr. PECORA. You did sign it, did you not?

Mr. LORD. I said I signed it, and I assume I was the author.

Mr. PECORA. But then you said "I do not know." What is the fact? Are you the author of this form of letter?

Mr. LORD. I assume so.

Mr. PECORA. Dont' you know so?

Mr. LORD. As long as I signed it, I probably was the author. I have not any reason to think otherwise as to any letter I signed.

Mr. PECORA. If it was not the policy of the Group, expressed by these letters to the executive officers of the unit banks, to have the Group first determine the dividend it would pay to its stockholders, and then notify the unit banks that in order to enable the Group to pay that dividend the unit banks would have to make certain dividend contributions in the form of dividends at rates specified by you, then what do you mean when, in preparing this form of letter, you state, in the opening sentence in all cases, as follows [reading]:

> To provide the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, the dividend should be declared at the March meeting of your board of directors. I would suggest, therefore, that it would be in order for your board to declare a dividend of 4 percent for this quarter.

Mr. LORD. It was necessary to budget the expenses and the dividends of the group corporation, of course, up to the next quarter, or within a few weeks of the declaration of the dividend. How could we know?

Mr. PECORA. But didn't you really put the cart before the horse in these instances, because it would seem from your letters to these bank officers that you first notified them what dividend disbursement was going to be made?

Mr. Lord. No; I notified them what would be required to maintain a certain dividend on the Group stock.

Mr. Pecora. Then, in order to maintain an annual disbursement of $3.20 per share to the stockholders of the Group stock, you made the suggestions to the heads of the unit banks concerning the amount of dividends that those unit banks should declare and pay to the Group, did you not?

Mr. Lord. Suggestion; yes.

Mr. Pecora. It never was more than a suggestion, of course?

Mr. Lord. I do not think so; no.

Mr. Pecora. In form, anyway; because you are careful to say "I would suggest, therefore, that it would be in order for your board to declare a dividend" at a certain rate. But don't you think, Mr. Lord, as you look back on the events, that these suggestions of yours, couched as suggestions in the phraseology that you used, were really accepted by the officers and directors of the unit banks as commands from the throne?

Mr. Lord. Knowing those boards, no; I would not think so.

Senator Couzens. Was there any case where it was not followed out?

Mr. Lord. I think there were, Senator Couzens. I would have to check it up. I recall several cases where the amount was changed, or no dividend at all was paid.

Mr. Pecora. Those several cases were very, very few in number, were they not?

Mr. Lord. As I say, I don't know exactly what cases there were, but I have a recollection of my suggestion being changed.

Mr. Pecora. I observe that in your letter to Mr. Stalker of March 4, 1930, the letter received in evidence as exhibit no. 10, you suggested that his board, the board of the Union Trust Co. of Detroit, should declare a quarterly dividend at the rate of 4 percent for the quarter; but in the letter you wrote to him under date of June 4, 1930, which was the ensuing quarter, you suggested that the dividend rate for the quarter be 5 percent instead of 4 percent. When you made that suggestion and suggested an increase in the dividend rate for the second quarter of the year 1930 to Mr. Stalker's bank, did you know that their earnings had fallen off, and they were not equivalent to 4 percent for the quarter?

Mr. Lord. I would not know whether I knew at that time or not.

Mr. Pecora. Didn't you say——

Mr. Lord. I assume if I made that suggestion of an increase, I assumed the earnings were sufficient to justify it.

Senator Couzens. In making all these suggestions to your units, did you just do it arbitrarily, or did you have a record of the earnings?

Mr. Lord. We had a record of the earnings, but in this particular case, Senator Couzens, the merger took place in that period between the two trust companies, and it was a very probable thing that I had no earnings figures at that time, in view of the details of consolidation.

Senator Couzens. So, notwithstanding the fact that you had no record of the earnings, you fixed the dividend for them.

Mr. Lord. I suggested a 5-percent rate.

Mr. PECORA. As a matter of fact, Mr. Stalker's reply to your letter of June 4, 1930, which has been received in evidence here as Committee's Exhibit No. 7, tells you, or says specifically [reading]:

However, as you are aware, a dividend of this amount has not been earned.

Does not that refresh your recollection to the point where you can tell this committee that when you wrote to Mr. Stalker on June 4, 1930, suggesting a dividend rate for the quarter of 5 percent, that you knew the earnings did not justify it?

Mr. LORD. Not to me: no. May I ask this, Mr. Pecora: Do you know what the earnings were for that 6 months? Do you know that the board of directors may not have gotten up-to-date earnings at the time of the declaration of their dividend, and justified it? I do not know.

Mr. PECORA. I simply know what Mr. Stalker, the president of the bank, knew, and said in his letter to you of June 5, 1930, that you knew, where he said [reading]:

However, as you are aware, a dividend in this amount has not been earned.

Don't ask me what I know. I know only what the record shows, and this letter is part of the record, and was addressed to you, and reminds you of what was apparently a matter of knowledge on your part at that time, namely, that the dividend of 5 percent had not been earned. Now you tell us what you know about that, will you?

Mr. LORD. I have no recollection except from the correspondence that you gave me. I assume that the directors discussed the situation thoroughly, and in their judgment felt if safe and proper to declare that dividend, or they would not have done it.

Mr. PECORA. Do you persist in saying that, Mr. Lord, in the light of what Mr. Stalker wrote to you under date of June 5, 1930?

Mr. LORD. I do not declare dividends. I was one director out of 50 or 60.

Mr. PECORA. We know you had no legal power to declare the dividends, but we also know that you were the president of the group which owned these banks, controlled the designations of members of the board, and had effected an arrangement whereby persons becoming members of the board entered into an agreement to exchange, upon the termination of their membership upon the board, their qualifying shares for stock of the group. We know that, and so do you, do you not?

Mr. LORD. Surely.

Mr. PECORA. Now, Mr. Lord, I show you what purports to be a photostatic reproduction of a letter addressed by you to Mr. Henry H. Sanger, president of the National Bank of Commerce, of Detroit, Mich., under date of March 4, 1930. Will you look at it and tell us if you recognize it to be a true and correct copy of a letter sent by you to Mr. Sanger on that date?

Mr. LORD. I think so; yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, March 4, 1930, Lord to Sanger, was received in evidence, marked "Committee Exhibit No. 11", December 19, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter which is received in evidence and marked Committee's Exhibit No. 11 of this date reads as follows [reading]:

MARCH 4, 1930.

Mr. HENRY H. SANGER,
President National Bank of Commerce,
Detroit, Michigan.

DEAR MR. SANGER: To provide the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, the dividend should be declared at the March meeting of your Board of Directors. I would suggest, therefore, that it would be in order for your board to declare a dividend of 5 percent for this quarter. This dividend should be payable not later than March 27th to stockholders of record March 17th, and a check to cover the dividend on the shares standing in the name of Guardian Detroit Union Group, Inc., as well as the shares standing in the names of your directors, should be in the hands of Mr. B. K. Patterson, Treasurer, Penobscot Bldg., Detroit, on that date or on the day following. Your proportionate share of the expenses of the Group Company, incurred on account of services rendered by that company, will be figured and a memorandum sent you at a later date

Please be good enough to promptly confirm this arrangement and advise me upon the declaration of your dividend.

Very truly yours,

——— ———, *President.*

And that is signed by you as president. Do you know whether Mr. Sanger, upon the receipt of this letter just received in evidence, made any protest or made any suggestions to you with regard to your suggested dividend rate for the quarter of 5 percent?

Mr. LORD. I do not recall what he replied to that.

Mr. PECORA. As possibly serving to refresh your recollection on that, I show you what purports to be a photostatic copy of a letter addressed to you by Mr. Sanger under date of March 11, 1930. Will you be good enough to look at it and tell me if you recognize it to be a true and correct copy of such a letter received by you?

Mr. LORD. I assume so.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, March 11, 1930, Sanger to Lord, was received in evidence, marked "Committee's Exhibit No. 12," December 19, 1933, and the same was subsequently read into the record by Mr. Pecora.)

The CHAIRMAN. Do I understand, Mr. Lord, that the directors themselves did not receive any dividends?

Mr. PECORA. They had assigned them to the Group.

Mr. LORD. They had assigned the dividends of the unit to the Group. They did receive dividends.

The CHAIRMAN. The dividends payable on their stock went to the Group?

Mr. LORD. Yes; and in turn they were to receive the dividend from such Group stock as would have been exchanged if an exchange had been made.

Mr. PECORA. That was part and parcel of the agreement referred to this morning?

Mr. LORD. It is in the record.

Mr. PECORA. The letter just offered and received in evidence, and marked "Committee's Exhibit No. 12" of this date, reads as follows. It is on the letterhead of the National Bank of Commerce of Detroit [reading]:

MARCH 11, 1930.

Mr. R. O. LORD,
President Guardian Detroit Union Group,
Detroit.

DEAR MR. LORD: Your letter of March 14, suggesting that the Board of Directors of the National Bank of Commerce declare a quarterly dividend of 5 percent, at $250,000, was submitted to our Board meeting today.

In view of the fact that our earnings for the present quarter, from present indications, will little more than cover our regular dividend of 4 percent, they felt that only our regular dividend should be declared for this quarter. However, if this will upset your calculation to pay the regular quarterly dividend of 80 cents a share on the Group stock, they will be glad to consider the declaration of an additional 1 percent at the next meeting of our Board, March 18th.

Will you please let me have your views in the matter?

Very truly yours,

H. H. SANGER, *President.*

When you received this letter from Mr. Sanger, do you recall what you did about it?

Mr. LORD. No; I do not recall, Mr. Pecora.

Mr. PECORA. Perhaps this letter, a photostatic copy of which I now show you, will serve to refresh your recollection. Will you please look at it and tell me if you recognize it to be a true and correct copy of a letter sent by you to Mr. Sanger in reply to his letter of March 11, 1930?

Mr. LORD. I assume so.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, March 13, 1920, Lord to Sanger, was received in evidence, marked "Committee Exhibit No. 13", Dec. 19, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter just received in evidence as committee's exhibit no. 13 of this date is as follows [reading]:

MARCH 13, 1930.

Mr. H. H. SANGER,
President, the National Bank of Commerce,
Detroit, Mich.

DEAR MR. SANGER: I have your letter of the 11th advising me of the action of your board in declaring a regular 4 percent dividend instead of 5 percent as suggested. We are counting on the 5 percent dividend and I hope, therefore, you will have your board declare an additional one percent at the next meeting on March 18. The fact that they are declaring a dividend at this rate for the present quarter does not necessarily mean that the same rate will continue throughout the year. I think each situation will have to be studied to determine what dividend it is advisable to declare for each quarter.

Trusting the suggestion is satisfactory, I am,

Very truly yours,

——— ———, *President.*

Signed by yourself as president.

Does not the evidence an instance where you did not abide by the independent judgment of the board of directors of a unit bank with regard to the declaration of a dividend?

Mr. LORD. I gather that Mr. Sanger's letter in regard to the extra dividend of the bank represented the board's decision and judgment on it, don't you?

Mr. PECORA. No; so long as you ask me, I emphatically do not.

Mr. LORD. Well, I do.

Mr. PECORA. Let me have that letter of Mr. Sanger's, and we will analyze it a little. The letter I refer to is a letter of Mr. Sanger to you, under date of March 11, 1930, which specifically tells you this [reading]:

> In view of the fact that our earnings for the present quarter, from present indications, will little more than cover our regular dividend of 4 percent, they felt that only our regular dividend should be declared for this quarter.

Now Mr. Lord, do you think that when Mr. Sanger wrote you to that effect, that he was telling you that his board was favorable to a 5 percent rate for the quarter?

Mr. LORD. Would you please read the next sentence?

Mr. PECORA. Will you answer my question based upon that part of the letter?

Mr. LORD. I think you have to consider the letter as a whole.

Mr. PECORA. I will read the next sentence.

Mr. LORD. I do not recall the exact wording. You may be right.

Mr. PECORA (continuing reading):

> However, if this will upset your calculation to pay the regular quarterly dividend of 80 cents a share on the Group stock, they will be glad to consider the declaration of an additional 1 percent at the next meeting of our board, March 18th.
>
> Will you please let me have your views in the matter?

Do you think that that represents the judgment of Mr. Sanger to you that his board was willing, on their independent judgment, to declare a quarterly dividend at the rate 5 percent, as suggested by you?

Mr. LORD. I think it represents their willingness to consider the extra 1 percent at the next meeting, just as Mr. Sanger says.

Mr. PECORA. It represents their willingness after having pointed out to you the unwisdom of declaring a quarterly dividend of 5 percent, to yield to the command from the throne, does it not?

Mr. LORD. I would not think so.

Mr. PECORA. It does to me; so long as you asked me before, that is my view of it.

After you were indulgent enough to respond to Mr. Sanger's suggestion for your views in the matter, did you send him your views? Or, rather, you did send him your views under date of March 13, by the letter marked in evidence as Committee's Exhibit No. 13. What did Mr. Sanger's board do?

Mr. LORD. I do not recall, sir.

Mr. PECORA. Will you look at this photostatic copy of what purports to be a letter sent to you by Mr. Sanger and see if that enlightens or refreshes your recollection as to what they did? Is that a true copy of a letter you received from Mr. Sanger?

Mr. LORD. So far as I know, yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, March 18, 1930, Sanger to Lord, was received in evidence, marked "Committee's Exhibit No. 14", Dec. 19, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter received in evidence and marked "Committee's Exhibit No. 14" of this date is on the letterhead of the National Bank of Commerce of Detroit and reads as follows [reading]:

MARCH 18, 1930.

Mr. R. O. LORD,
President Guardian Detroit Union Group, Inc.,
Detroit.

DEAR BOB:——

Before that he addressed you as "Dear Mr. Lord."
[Continuing reading:]

DEAR BOB: Your letter of March 13, in re extra dividend, was submitted to our directors at a meeting held today, and an extra dividend of one percent or $50,000 was declared payable March 27th, out of undivided profits.

Very truly yours,

H. H. SANGER, *President.*

Mr. Lord, does this correspondence indicate that Mr. Sanger and his board of directors were exercising their free, independent, and untrammeled judgment about the dividend?

Mr. LORD. I would think so, knowing that board of directors, Mr. Pecora.

Mr. PECORA. Who were the members of the board, knowing them as you did?

Mr. LORD. Just a minute. I will get them for you. [After examining papers.] Do you want a list of the board of directors of the National Bank of Commerce at that time?

Mr. PECORA. Yes.

Mr. LORD. Frank W. Blair, Harry C. Bulkley, Harry S. Covington, Harry V. Earhart, George R. Fink, Harry S. Finkenstaedt, Burch Foraker, Edsel B. Ford, John H. French, George K. Hebb, Carlton M. Higby, Charles H. Hodges, James Inglis, James B. Jones, Samuel R. Kingston, Charles A. Kinney, George H. Klein, Charles F. Lambert, Dwight B. Lee, myself, Alving Macauly, Francis C. McMath, Charles S. Mott, Edwin H. Nelson, John R. Russell, Murray W. Sayles, Henry H. Sanger, Allan Shelden, Hal H. Smith, Oscar W. Smith, John N. Stalker, John M. Toolin, Carl V. Tuttle, Charles B. Warren, L. A. Young.

Mr. PECORA. How many of those directors were also directors at that time of the group—quite a few of them, weren't there?

Mr. LORD. Yes; quite a few, sir.

Mr. PECORA. Were all of these directors also stockholders of the group?

Mr. LORD. They had to be.

Mr. PECORA. Were they substantial stockholders?

Mr. LORD. Some of them.

Mr. PECORA. Which of them were substantial stockholders?

Mr. LORD. Mr. Mott was probably the most substantial and Mr. Edsel B. Ford, both of whom were directors.

Mr. PECORA. How about Mr. Blair?

Mr. LORD. Mr. Blair was a fairly substantial stockholder. I do not know what holdings he had at the time.

The CHAIRMAN. The committee will take a recess until 10:30 in the morning.

(Whereupon, at 4:15 p.m., Tuesday, Dec. 19, 1933, an adjournment was taken until tomorrow, Wednesday, Dec. 20, 1933, at 10:30 a.m.)

COMMITTEE EXHIBIT NO. 1, DECEMBER 19, 1933

Articles of Association of Guardian Detroit Group, Inc.

We, the undersigned, desiring to become incorporated under the provisions of Act No. 84 of the Public Acts of 1921, entitled "An Act to provide for the organization, regulation, and classification of domestic corporations; to prescribe their rights, powers, privileges, and immunities, to prescribe the conditions upon which corporations may exercise their franchise", etc., do hereby make, execute, and adopt the following articles of association, to wit:

ARTICLE I

The name assumed by this association, and by which it shall be known in law is Guardian Detroit Group, Inc.

ARTICLE II

This corporation intends to proceed under Section 1, Chapter 1, Part 1, of the above act.

ARTICLE III

The purpose or purposes of this corporation are as follows: To acquire, own, hold, dispose of, and deal in stocks, bonds, and other evidences of indebtedness and securities including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereto all the rights, powers, and privileges of individual owners thereof including the right to vote the same and to execute proxies therefor.

ARTICLE IV

Principal place where company will operate is Detroit, in the County of Wayne, State of Michigan.

Address of main office in Michigan is Penobscot Building, Detroit.

ARTICLE V

The total capital stock authorized is Seven Million Five Hundred Thousand Dollars.

The amount subscribed is One Thousand Dollars.

The amount paid in is One Thousand Dollars.

The number of shares of common stock is 150,000 of the par value of Fifty Dollars each.

Amount of common stock, paid for in cash is One Thousand Dollars.

The amount of actual capital, in cash or property or both, which this corporation owned and possessed at the time of executing these articles is One Thousand Dollars.

ARTICLE VI

The term of this corporation is fixed at Thirty years.

ARTICLE VII

Names of stockholders, their residences, and shares subscribed by each are:

Henry E. Bodman, 20 McKinley Place, Grosse Pte. Farms, Mich	1
Edsel B. Ford, 100 Lake Shore Road, Grosse Pte. Shores, Mich	1
John C. Grier, Jr., 8100 East Jefferson Avenue, Detroit, Mich	1
Sherwin A. Hill, Northville, Mich	1
Ernest Kanzler, 2501 Iroquois Avenue, Detroit, Mich	1
Robert O. Lord, 17 McKinley Place, Grosse Pte. Farms, Mich	12
Fred T. Murphy, 17620 East Jefferson Avenue, Grosse Pointe, Mich	1
Phelps Newberry, 36 Cloverly Road, Grosse Pte. Farms, Mich	1
James L. Walsh, 8161 East Jefferson Avenue, Detroit Mich	1

ARTICLE VIII

The officers and directors for the first year of the corporation's existence are as follows:

DIRECTORS

Henry E. Bodman, Penobscot Building, Detroit, Mich.
Edsel B. Ford, Ford Motor Co., Dearborn, Mich.
John C. Grier, Jr., Penobscot Building, Detroit, Mich.
Sherwin A. Hill, Union Trust Building, Detroit, Mich.
Ernest Kanzler, Penobscot Building, Detroit, Mich.
Robert O. Lord, Penobscot Building, Detroit, Mich.
Fred T. Murphy, Penobscot Building, Detroit, Mich.
Phelps Newberry, Penobscot Building, Detroit, Mich.
James L. Walsh, Penobscot Building, Detroit, Mich.

OFFICERS

Henry E. Bodman, chairman of the board, Penobscot Building, Detroit, Mich.
Robert O. Lord, president, Penobscot Building, Detroit, Mich.
John C. Grier, Jr., vice president, Penobscot Building, Detroit, Mich.
James L. Walsh, vice president, Penobscot Building, Detroit, Mich.
Phelps Newberry, vice president and treasurer, Penobscot Building, Detroit, Mich.
Lewis K. Walker, secretary, Penobscot Building, Detroit, Mich.
Arthur H. Vogt, assistant treasurer, Penobscot Building, Detroit, Mich.
Robert C. Lehman, assistant secretary, Penobscot Building, Detroit, Mich.

ARTICLE IX

The holders of the stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company.

This corporation reserves and shall have the right from time to time upon the affirmative vote of three fourths of its directors to issue and dispose of all or any of its unissued or increased stock for the purpose of acquiring stock of banks or trust companies, without offering to the stockholders of this corporation for subscription any of the stock so to be disposed of.

In witness whereof we, the parties designated as provided by law by the parties associating, as shown under article VII of these articles, for the purpose of giving legal effect to these articles, hereunto sign our names this 9th day of May, A.D. 1929.

HENRY E. BODMAN,
JOHN C. GRIER, JR.,
ROBERT O. LORD.

STATE OF MICHIGAN,
County of Wayne, ss:

On this 9th day of May, A. D. 1929, before me, a Notary Public in and for said County personally appeared Henry E. Bodman, John C. Grier, Jr., and Robert O. Lord known to me to be the persons named in, and who executed the foregoing instrument, and severally acknowledged that they executed the same freely and for the intents and purposes therein mentioned.

JOSEPH F. WEBB, JR.,
Notary Public, Wayne County, Michigan.

My commission expires November 19, 1929.

This is to certify that at the organization meeting of the incorporators of Guardian Detroit Group, Inc., a corporation to be formed under Act 84, Public Acts of 1921, of the State of Michigan, as amended, held this 9th day of May, 1929, the following resolution was unanimously adopted and that the undersigned was elected to act and did act as Secretary of said meeting:

"*Resolved*, That Henry E. Bodman, John C. Grier, Jr., and Robert O. Lord be, and they are hereby, designated to sign and acknowledge the Articles of Association of Guardian Detroit Group, Inc., for themselves and for the remainder of the incorporators of said corporation.

"JOHN C. GRIER, JR.,
"*Secretary of the Organization Meeting of Guardian Detroit Group, Inc.*"

STOCK EXCHANGE PRACTICES

WEDNESDAY, DECEMBER 20, 1933

United States Senate,
Subcommittee of the Committee on
Banking and Currency,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Norbeck, Couzens, and Townsend.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, statistician to the committee.

The Chairman. The subcommittee will come to order, please, You may proceed, Mr. Pecora.

Mr. Pecora. Mr. Lord, you will resume the stand.

Mr. Lord. Yes, sir.

TESTIMONY OF ROBERT O. LORD, PENOBSCOT BUILDING, DETROIT, MICH.—Resumed

Mr. Pecora. Mr. Lord, do you recall a transaction involving the purchase of a block of about 1,000 shares of the stock of the Grand Rapids National Bank, in the name of Mr. Joseph H. Brewer?

Mr. Lord. Very vaguely.

Mr. Pecora. How much do you recall of that transaction?

Mr. Lord. Practically nothing, Mr. Pecora.

Mr. Pecora. Do you recall that there was such a transaction?

Mr. Lord. Not as to the exact number of shares, but that there was some stock purchased in the name of Mr. Brewer.

Mr. Pecora. What, if anything, did you have to do with that transaction?

Mr. Lord. I should say very little.

Mr. Pecora. Well, what was that very little?

Mr. Lord. I knew that Mr. Brewer was buying some of the Grand Rapids National Bank stock.

Mr. Pecora. What did you have to do with it?

Mr. Lord. In what way, Mr. Pecora?

Mr. Pecora. In any way.

Mr. Lord. My recollection is very dim on that transaction, but it took place, as I recall it, in the summer of 1929. Mr. Brewer was at that time connected with the Grand Rapids National Bank. He

was very aggressive in the affairs of the bank, very anxious that his bank should become a member of the Group. And I understood that he was purchasing some of the stock. My recollection is that the stock was carried for him by the Guardian Detroit Co.

Mr. PECORA. The Guardian Detroit Co. was the securities affiliate of the Guardian Detroit Bank, wasn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. And you were the president, then, of the Guardian Detroit Bank?

Mr. LORD. It was the security affiliate of the Group. I was then the president of the bank and also of the Group.

Mr. PECORA. And of the Group also?

Mr. LORD. Yes, sir.

Mr. PECORA. Well——

Mr. LORD (continuing). But quite inactive in the securities company. I was vice president of it, as I recall it, and inactive.

Mr. PECORA. Do you recall how much was involved in that transaction in the matter of dollars and cents?

Mr. LORD. No, sir; I do not.

Mr. PECORA. Do you recall that it was in excess of the sum of $850,000?

Mr. LORD. No; I do not recall any figure at all.

Mr. PECORA. Do you recall the circumstances under which the Guardian Detroit Co. financed the purchase of that stock for Mr. Brewer?

Mr. LORD. Not in detail. I remember they carried it for him.

Mr. PECORA. Do you recall at whose instance Mr. Brewer purchased the stock?

Mr. LORD. I suppose at his own instance. He was a substantial stockholder at the time in the Grand Rapids National Bank, and I suppose he wanted to acquire additional stock.

Mr. PECORA. At the time of that transaction was the Grand Rapids National Bank one of the unit banks of the group?

Mr. LORD. I would say it was in process of negotiation at the time.

Mr. PECORA. And Mr. Brewer was the president of the Grand Rapids National Bank?

Mr. LORD. I think he was chairman of the board, but am not certain. He and Mr. Waters were associated together. Just what title Mr. Brewer held I do not recall.

Mr. PECORA. But negotiations on behalf of the Group toward acquisition of the Grand Rapids National Bank had progressed to the point where at about the time of this stock transaction it was practically assured that the Group would acquire control of the Grand Rapids National Bank. Is that your recollection?

Mr. LORD. I wouldn't say no, that it was assured, but I would say it was tending favorably in that direction.

Mr. PECORA. Well, all the plans had been completed but not consummated about that time?

Mr. LORD. I am not certain of that, Mr. Pecora.

Mr. PECORA. Do you recall anything more in connection with that transaction than you have just now testified to?

Mr. Lord. As I recall, Mr. Brewer never took up that stock, never was able to, and never paid for it. It therefore belonged to the Guardian Detroit Co.

Mr. Pecora. How long did the Guardian Detroit Co. carry that stock for Mr. Brewer?

Mr. Lord. I do not recall.

Mr. Pecora. Was it a period of more than a year or two?

Mr. Lord. I do not recall the length of time.

Mr. Pecora. Who eventually took up the stock?

Mr. Lord. I would think the Guardian Detroit Co. took up the stock.

Mr. Pecora. And during the time that the Guardian Detroit Co. carried that stock for Mr. Brewer did Mr. Brewer pay interest on the loan?

Mr. Lord. I do not know.

Mr. Pecora. Do you recall having had any correspondence with Mr. Brewer in connection with that transaction?

Mr. Lord. I do not recall any personally; no. I might have had, but——

Mr. Pecora (interposing). What was that?

Mr. Lord. I say I might have had but I do not recall it.

Mr. Pecora. Well, then, possibly for the purpose of refreshing your recollection, will you look at this paper which I now show you, and which purports to be a photostatic reproduction of a letter addressed by you, under date of August 24, 1929, to Mr. Joseph H. Brewer? Will you look at it and then tell me, first, if you recognize it as a true and correct copy of such letter?

Mr. Lord (after reading the photostat). I would say that that is my letter.

Mr. Pecora. Mr. Chairman, I offer it in evidence, and ask that it may be made a part of the record.

The Chairman. Let it be admitted, and the committee reporter will make it a part of the record.

(The letter dated August 24, 1929, addressed to Joseph H. Brewer by Robert O. Lord, was marked "Committee Exhibit No. 15, Dec. 20, 1933", and will be found immediately following where read by Mr. Pecora.)

Mr. Pecora. The letter received in evidence as Committee Exhibit No. 15 of this date, is as follows:

August 24, 1929.

(Personal)

Mr. Joseph H. Brewer,
Grand Rapids Trust Building, Grand Rapids, Mich.

Dear Mr. Brewer: Understanding that there appears to be a movement on the part of outsiders to buy a substantial interest in the Grand Rapids National Bank, and desiring to be of any possible service to Mr. Dudley Waters and his associates in the bank, we are willing to have you buy for us not to exceed—

That figure is not clear. I do not know whether that is 1,000 or 1,600 shares—

of the stock of the Grand Rapids National Bank, at a price not to exceed $515 a share.

This stock should be bought by you, issued in your name, and endorsed in blank and forwarded to us. We will hold the stock, and you may consider this our commitment for a period of six months from the date of purchase, to return this stock to you or to your order, at its actual cost to us plus interest at the rate of 7% per annum on our investment in the stock.

Please advise me from time to time as to the amount of stock which has been purchased, and send the stock to the Guardian Detroit Company either for my attention or for the attention of Mr. John C. Grier, Jr.

Very truly yours.

And it is signed by you as president of the Guardian Detroit Bank.

Mr. LORD. I do not know whether I signed it as president of the bank or the Group.

Mr. PECORA. Well, I judge it was of the bank, because the letter appears to have been written on the letterhead containing in its upper right-hand corner the printed inscription: "Guardian Detroit Bank."

Would that indicate that it was written on the letterhead of the bank and therefore written as the president of the bank?

Mr. LORD. It might have been written on that letterhead. Yes; it would indicate it, as far as that is concerned.

Mr. PECORA. And that it was written by you in your capacity as the president of that bank rather than the president of the Group? Which was it?

Mr. LORD. Well, that would indicate it was written on bank stationery.

Mr. PECORA. Well, was it a letter that you sent to Mr. Brewer in your capacity as president of the Guardian Detroit Bank, or is it your personal recollection that you wrote to him as president of the Guardian Union Group, Inc.?

Mr. LORD. Mr. Pecora, without seeing the original I would not know, because it is quite possible that a carbon of the bank's stationery might have been used.

Senator ADAMS. You just stated a minute ago, if I recall correctly, that your part in the Group was a very inactive part.

Mr. LORD. No; in the Guardian Detroit Co., the securities company.

Senator ADAMS. Oh, in the securities company.

Mr. LORD. Yes, sir. The transaction, apparently, was handled entirely through the securities company, and the stock as I recall it was delivered to the securities company.

Senator ADAMS. You were inactive in the securities company?

Mr. LORD. Yes, sir.

Senator ADAMS. Then the probability would be that you were acting in your capacity as president of the bank, because of your inactivity in the affairs of the securities affiliate.

Mr. LORD. Well, the bank did not buy that stock, and therefore I could not have been acting in my capacity as the president of the bank.

Senator ADAMS. Well, the letter would indicate some activity along that line.

Mr. LORD. The bank never did buy the stock. The stock was bought by the securities company.

The CHAIRMAN. And the money was furnished actually by the securities company?

Mr. LORD. Yes, sir.

The CHAIRMAN. And the stock was turned over to the securities company?

Mr. LORD. Yes, sir. Neither a national nor a State bank can buy stock.

Senator ADAMS. Well, we have had a lot of experience around here about things it has been said could not be done and yet that were done.

Mr. LORD. Well, I haven't the books of the securities company, but I think they will show that the transaction was handled entirely through the securities company.

Senator ADAMS. All that I am saying is, that because there is a legal obstacle to it is no reason for saying it was not done, judging by our experience here.

Mr. PECORA. Mr. Lord, has the reading of this letter awakened in your mind any additional recollection of the facts respecting this transaction?

Mr. LORD. No; I think not.

Mr. PECORA. Well, on whose initiative was this transaction undertaken, yours or Mr. Brewer's?

Mr. LORD. I would say on Mr. Brewer's. Mr. Brewer had come to us, and he was very anxious to have this institution a part of the Group, and he spoke of——

Mr. PECORA (interposing). Was he anxious to have it done, or were you anxious that it should be done?

Mr. LORD. He approached me first in regard to his bank becoming a member of the Group. I had known Mr. Brewer for 15 or 20 years, when I was with the Harris Trust & Savings Bank of Chicago. We were old friends. He came into my office one day to talk about his institution, that is, the Grand Rapids National Bank and the Grand Rapids Trust Co., becoming a member of the Group. He was very much in favor of group banking, the group-banking idea, and thought it would be a very fine thing for the State and for his institutions.

Mr. PECORA. The Group at that time had been in existence about 3 months, hadn't it?

Mr. LORD. Approximately; yes, sir.

Mr. PECORA. It was incorporated in May of 1929?

Mr. LORD. Yes, sir.

Mr. PECORA. And it was not until December 16 of that year that the Guardian Detroit Group merged with the Union Commerce Corporation, the other bank holding company?

Mr. LORD. That is right.

Mr. PECORA. Now, you say in this letter addressed by you to Mr. Brewer:

> Understanding that there appears to be a movement on the part of outsiders to buy a substantial interest in the Grand Rapids National Bank, and desiring to be of any possible service to Mr. Dudley Waters and his associates in the bank, we are willing to have you buy for us not to exceed——

And I do not know whether that is 1,000 or 1,600 shares.

Mr. LORD. I do not recall which.

Mr. PECORA. Continuing, the letter says:

> shares of the stock of the Grand Rapids National Bank, at a price not to exceed $515 a share.

Well, now, from that language, Mr. Lord, it would appear that the purchase was to be made not in behalf of Mr. Brewer but in behalf of the gentlemen named, Dudley Waters and certain unnamed associates of Mr. Waters. Who is Mr. Waters?

Mr. Lord. Mr. Waters I would say was the executive head of that bank.

Mr. Pecora. And who were the associates to whom you referred in that letter?

Mr. Lord. His own officers and directors.

Mr. Pecora. Who were the so-called "outsiders" who had started a movement to buy a substantial interest in that Grand Rapids National Bank at that time?

Mr. Lord. My recollection was that there were a lot of sharp-shooting brokers in Grand Rapids who were trying to pick up that stock, and——

Mr. Pecora (interposing). Why do you call them "sharp-shooting brokers"? Because they were trying to pick up the bank's stock. Wouldn't that description also apply to anyone else trying to pick up the stock?

Mr. Lord. I did not hear the question.

Mr. Pecora. I say, why do you call them "sharp-shooting brokers" simply because they were trying to pick up the bank's stock?

Mr. Lord. Because they had gotten a list of the bank's stockholders, which is always published, and were approaching those stockholders, endeavoring to buy the stock without telling the individuals that there was a possibility of the bank's becoming a member of the Guardian Group.

Mr. Pecora. Then the purpose of those brokers, as I understand your answer, was to buy a sufficiently substantial block of the stock. in the Grand Rapids National Bank, as to, perhaps, put them in a position where they might prevent your Group from acquiring control of the bank. Was that it?

Mr. Lord. No, I think not. I would say their position was, in order to scalp the profit on it.

Mr. Pecora. I see. And was it your purpose to have Mr. Waters and his associates to scalp that profit instead of the sharp-shooting brokers?

Mr. Lord. No. It was not with the idea that they were going to make a profit. It was with the idea of those gentlemen retaining their interest in the stock, and in turn retaining their interest in the Group stock which was exchanged for Grand Rapids National Bank stock on the basis of actual value, not on the basis of market value.

Mr. Pecora. The Grand Rapids National Bank had not yet been acquired by the Group?

Mr. Lord. The matter was in process of negotiation at that time.

The Chairman. Did the stock go up after that?

Mr. Lord. I do not recall. I suppose it did. The whole market was going up at that time.

The Chairman. What became of it finally?

Mr. Lord. May I say this, Mr. Pecora: That both Mr. Brewer and Mr. Waters, as I think the record will show, had among their holdings a greater amount of stock in the Guardian Group than they did 2 or 3 years before. In other words, it wasn't their idea to acquire that stock at a price and sell out either that stock or the Group stock at a higher price. Their interest was in remaining in the Guardian Group and continuing as a part of the whole picture.

Mr. PECORA. In the light of the testimony that you gave yesterday and the exhibits that were introduced into the record while you were on the stand yesterday, do you still say that the officers and the board of the Group never attempted to control or dictate the dividend policy of the unit banks in the Group?

Mr. LORD. I do, sir. And in that connection may I refer to and read a portion of the minutes of the Trust Co. meeting at which that matter of dividends that was discussed on yesterday was taken up and declared? Here is a copy of the minutes of the regular meeting of the board of directors of the Union Guardian Trust Co. held Wednesday, June 11, 1930, at 12 noon. Here are the directors who were present:

Frank W. Blair (chairman of the board), Frederic G. Austin, Paul F. Bagley, Judson Bradway, John A. Bryant, Harry C. Bulkley, Frank Couzens, J. Walter Drake, Charles R. Dunn, John W. Finkenstaedt, Adolph Finkenstaedt, Burch Foraker, Luman W. Goodenough, C. H. Haberkorn, Jr., Harley G. Higbie, Sherwin A. Hill, Charles H. Hodges, Hobart B. Hoyt, James Inglis, Andrew L. Malott, Francis C. McMath, Fred T. Moran, Charles S. Mott, William K. Muir, Fred T. Murphy, Edwin H. Nelson, Phelps Newberry, Ransom E. Olds, Joel H. Prescott, George B. Russel, John R. Russel, Murray W. Sales, Hal H. Smith, John N. Stalker, B. F. Stephenson, George W. Trendle, Luther S. Trowbridge, Carl B. Tuttle, Arthur T. Waterfall, Clarkson C. Wormer, Jr.

And here is the portion——

Mr. PECORA (interposing). What was the date of that meeting?

Mr. LORD. June 11, 1930.

Mr. PECORA. All right.

Mr. LORD. Here is the portion of the minutes relating to the dividend:

> The chairman of the board then made a report with respect to the earnings and expenses of the Trust Co. and its subsidiaries for the month of May 1930, and for the 5 months' period ending May 31, 1930, and recommended, in accordance with the suggestion of the Group, the payment of a quarterly dividend of 5 percent.
>
> Whereupon, on motion——

Mr. PECORA (interposing). Will you repeat that last clause, and recommended what?

Mr. LORD. It says:

> and recommended, in accordance with the suggestion of the Group, payment of a quarterly dividend of 5 percent.
>
> Whereupon, on motion duly supported and carried, the following resolution was adopted:
>
> "*Resolved*, That a dividend of 5 percent on the capital stock of this company be, and is hereby declared, payable June 27, 1930, to the stockholders of the company of record at the close of business June 16, 1930."

Now, if I may continue on this subject of the dividend, I have some information which I think would clarify this whole question which was discussed here on yesterday. I have some figures here I must refer to. Take the period of 3 years, 1930, 1931, and 1932: In 1930——

Mr. PECORA (interposing). Go ahead. I am listening to you.

Mr. LORD. In 1930 the operating earnings of the banks and the trust companies were in excess of $5,800,000. The dividends declared

by those units that year were approximately $4,330,000. That is, the dividends declared by the units of the Group.

Now, in 1931 the operating earnings of the banks and the trust companies were $3,887,000 plus, and the dividends declared on the stock by the units of the Group Co. were $3,171,750. In 1932 the operating earnings of the banks and the trust companies were $2,619,000 plus, and dividends were declared that year to the extent approximately of $662,000, by those banks and trust companies to the Group Corporation.

Mr. PECORA. That was for the year 1932, was it?

Mr. LORD. Yes; for 1932.

Mr. PECORA. And it was sometime during that period that the Comptroller of the Currency sent out a request to banks to cut down on their dividends, to conserve their cash resources as much as possible in view of the times.

Mr. LORD. Sometime in 1932?

Mr. PECORA. Yes.

Mr. LORD. In the latter part of 1932 we had very full discussions with Mr. Layburn, the chief national bank examiner of the district, as to which bank should or was entitled to declare dividends. That was gone over very fully, and——

Mr. PECORA (interposing). Well, won't you——

Mr. LORD (interposing). May I go on with this?

Mr. PECORA. Won't you please answer my question. I did not ask you about Mr. Layburn. I asked you if it was not true that during 1932 the Comptroller of the Currency sent out a request to banks to cut down on dividend declarations and conserve cash resources as much as possible in view of the times.

Mr. LORD. Do you mean a general request?

Mr. PECORA. Yes.

Mr. LORD. I do not recall a request being directed to this bank. There might have been published an announcement as to dividends, and the general policy of the Comptroller's Department.

Mr. PECORA. Don't you recall such a request having been brought to your attention in 1932?

Mr. LORD. I do not.

Mr. PECORA. We will come to that later. You may now go ahead.

Mr. LORD. Taking the 3-year period, the operating net earnings were more than $12,300,000 and the dividends declared were about $8,164,000. In other words, in that period the unit banks and trust companies declared in the matter of dividends slightly less than two thirds of their operating net earnings. On yesterday particular stress was laid——

The CHAIRMAN (interposing). About what percent was that?

Mr. LORD. About 66⅔ percent.

The CHAIRMAN. Well, I mean——

Mr. LORD (continuing). Or about two thirds of the net earnings.

Mr. PECORA. Let me ask——

The CHAIRMAN (continuing). Two thirds of what?

Mr. LORD. Of their operating earnings.

The CHAIRMAN. What percent on the entire capital was that dividend?

Mr. PECORA. In other words, the rate of dividend.

Mr. LORD. I have not the various rates, but can figure it out. They were at different rates throughout the period.

Senator COUZENS. The chairman wants to know what percent it was on the Group stock.

Mr. LORD. I have tried to explain that it was at different rates in different years, and even in different quarters. In 1930 I think the rate paid was $3.20 a share on the Group stock. In the two years following it was gradually cut down.

Mr. PECORA. And it was of a par value of $20 a share?

Mr. LORD. Yes, sir. Sixteen percent on the par value of the stock at the start, and was finally cut down to a very small percentage.

Mr. PECORA. Go ahead.

Mr. LORD. On yesterday in our testimony there was particular stress laid upon the dividends of the Union Guardian Trust Co. and on the National Bank of Commerce.

I would like to bring out the earnings of those institutions for the 3 years. For the 3-year period the earnings of the Union Guardian Trust Co. were $1,675,000 plus. The dividends declared in that period were $1,475,000.

In the case of the National Bank of Commerce, you will recall there was a consolidation of the National Bank of Commerce with the Guardian Detroit Bank as of December 31, 1931. Therefore it is necessary, in discussing these dividends and earnings, of course, to take the consolidated figures. For the 3-year period the consolidated figures of the institution which finally constituted the Guardian National Bank of Commerce, the operating earnings were $5,140,000 plus, whereas the dividends declared during that 3-year period were only $3,736,800.

Another fact that I would call to the attention of this committee is that during that 3-year period that we are discussing on the question of dividends, the Group Co. received in dividends from the bank and trust company units approximately $8,164,000, whereas during that same period the Group Co. purchased slow or criticized assets from the units of more than $8,400,000, or more than $200,000 in excess of the dividends paid out by these units to the Group Corporation.

In addition to that, I want to refer to my statement of yesterday and state that during that same period, or approximately the same period, if we include the fall and winter of 1929, the big stockholders who you might say were benefited by these dividends, contributed for the protection of the despositors, as I figure out the amount, more than $12,000,000 of their own resources for the protection of the depositors; and on top of that those same stockholders took out of their own pockets $15,0000,000 more for the protection of the whole situation in Detroit.

The CHAIRMAN. When was that?

Mr. LORD. In that 3-year period. There was a total of $27,000,000 out of the personal resources of those stockholders.

The CHAIRMAN. And that extended over the whole 3 years?

Mr. LORD. It extended over the whole 3 years.

The CHAIRMAN. When did the bank troubles begin? When did the run begin on your bank?

Mr. LORD. Senator Fletcher, I should say that the bank troubles in Detroit began at the time that the Detroit banks, in order to protect 150,000 depositors in the American State Bank, assumed the deposit liabilities of that bank.

The CHAIRMAN. When was that?

Mr. LORD. My recollection is that it was in the winter of 1931. It would be either 1930 or 1931. The clearing-house banks in Detroit at that time, perhaps foolishly if we had realized the trend of the depression, the terrific velocity of the depression—perhaps we would and should have let that bank go; but in the clearing-house meeting, after full discussion, it was decided by these banks that the thing to do for those 150,000 depositors, for the other banks in Detroit was to assume those deposit liabilities, which we did. As I recall it, the deposits in the American State Bank at that time were $30,000,000 odd. I have not the figure definitely in mind. But it was very largely a savings bank with branches throughout the city of Detroit, with workers' funds in it, and we felt that it was a very serious matter to let that bank go down.

The CHAIRMAN. Had there been any run started on that bank?

Mr. LORD. There certainly had, and it finally reached the point that the banks in town bought whatever good assets they could find to protect the bank. But the velocity of the run was so serious that it was absolutely necessary for the banks to assume that liability unless the American State Bank was to be closed.

The CHAIRMAN. You do not remember whether that was in 1930 or 1931?

Mr. LORD. May I refer to a paper?

The CHAIRMAN. Yes.

Mr. LORD (after referring to a paper). It was March 1931.

The CHAIRMAN. That is when the real trouble began?

Mr. LORD. That is when the real trouble began. There had been seepage of deposits in the Michigan banks.

Mr. PECORA. It began to become acute about that time?

Mr. LORD. It began to become very acute.

The CHAIRMAN. Were the unit banks involved at the same time?

Mr. LORD. Throughout the State?

The CHAIRMAN. Yes.

Mr. LORD. No, sir; oh, no.

The CHAIRMAN. They had no trouble then?

Mr. LORD. No; except the seepage due to the depression; but there were no active runs. Following that, a few months later—well, to take the Detroit situation alone, there were a number of private banks in Detroit, particularly Polish banks, in Hamtramck. I believe there were 11 of them. All of them closed their doors. Hamtramck is very largely a Polish district, and you know what that class of depositors will do to a bank when they want their money. They will just come and get it.

In the summer, as I recall it—I think it was 1931—there were 3 or 4 banks that failed in Toledo. My recollection is that the deposits involved in those three Toledo bank failures totaled approximately $75,000,000. We used to keep for our own information a record of the Postal Savings deposits in Detroit to watch the trend of the deposit situation. Normally the deposits in Postal

Savings in Detroit used to run about $7,500 a day. Due to these Toledo bank failures, due to the local situation, and due to the surrounding situation in the outlying districts of Detroit and throughout the State, with all of these bank failures, there were days when those Postal Savings deposits reached nearly $300,000. So you can see the trend of the withdrawal of deposits from the bigger Detroit banks. The figures that I think I gave you yesterday showing the decrease in deposits from the peak of $420,000,000 plus to whatever it was when the bank holiday came—my recollection is about $275,000,000 or $285,000,000—that decrease was the result of all these bank troubles and of the depression and of the public fear and unrest. That is the situation that we faced in Detroit.

Now, to continue about this question of dividends. Perhaps we should not have declared two thirds of the operating earnings out in dividends. Perhaps we should have paid half of that. Perhaps we should have paid no dividens; but at the time the action was taken it was taken after full consideration, after study of the situation; it was taken at a time when the Administration and when the business leaders of the country were urging corporations to continue dividends in order to keep up the buying power of the Nation, to create employment, and to help the worker. Perhaps we were mistaken. I think we were, if our foresight had been as good as our hindsight. If we had realized that the depression was to continue for the time it has, I think we would have said, right off the bat, "No more dividends until the depression is over." But when the action was taken, it was taken after careful consideration and it seemed the wise thing to do.

Mr. Pecora. In other words, you thought that prosperity was just around the corner?

Mr. Lord. They said so in the paper about every 2 days.

Mr. Pecora. But you had no idea how far from your position that corner was?

Mr. Lord. No; and no one else did.

Mr. Pecora. You assumed it was quite near, from your dividend policy?

Mr. Lord. We assumed and hoped it was quite near. We were told it was quite near.

Mr. Pecora. You have been good enough to tell this committee that during the years 1930, 1931, and 1932 the Group purchased from various of its unit banks slow or doubtful assets of an aggregate value of over $8,000,000?

Mr. Lord. Yes, sir.

Mr. Pecora. From what banks were those assets purchased by the Group?

Mr. Lord. Mr. Pecora, a record given to me shows—do you want the trust companies also?

Mr. Pecora. Yes.

Mr. Lord. Union Guardian Trust Co., $7,500,000.

Mr. Pecora. When was that done?

Mr. Lord. That was done in two pieces: At the end of 1931, $4,000,000, if my recollection is correct; and at the end of 1932, $3,500,000.

The CHAIRMAN. What does that refer to now—the purchase of assets?

Mr. LORD. The purchase at the carrying value on the books of the institution of slow and doubtful assets by the Group.

The CHAIRMAN. Were they turned over to the Group?

Mr. LORD. Yes.

The CHAIRMAN. And that was done to help the trust companies?

Mr. LORD. To help the institution; yes, sir.

Mr. PECORA. During those 2 years of 1931 and 1932 what dividends, if any, were declared by the Union Guardian Trust Co.?

Mr. LORD. I am not sure I have those figures, Mr. Pecora.

Mr. PECORA. Well, perhaps I can give you those figures——

Mr. LORD. Yes; I have them here. In 1931 and 1932, you say?

Mr. PECORA. Well, take 1930, also.

Mr. LORD. In 1930 the approximate dividend of the Union Guardian Trust Co. was $925,000. In 1931, $500,000; in 1932, $50,000.

The CHAIRMAN. I would like to understand that a little better. Suppose that I am a stockholder in that bank. You tell me the total dividends are so many hundreds thousands of dollars. What did the stockholders get? What was the rate percent?

Mr. LORD. There was $5,000,000 of capital stock of the Union Guardian Trust Co. All of that capital stock, except the directors' qualifying shares, was owned by the Group Co. Had you been the Group Co. owning that capital stock, your rate of dividend in 1930 would have been 18.5 percent. In 1931 it would have been 10 percent. In 1932 it would have been 1 percent. Does that answer your question?

The CHAIRMAN. Yes; that is what I wanted.

Mr. PECORA. Now, from what other banks in the Group did the Group purchase slow and doubtful assets during those 3 years?

Mr. LORD. The City National Bank & Trust Co. of Battle Creek, $198,068.93. Does that answer your question?

Mr. PECORA. Yes.

Mr. LORD. Shall I continue with the purchase of the assets?

Mr. PECORA. Yes.

Mr. LORD. The National Bank of Ionia——

Mr. PECORA. As you give the names of the banks from which the group purchased slow and doubtful assets, will you also give the dividends paid during those years in which the purchases were made?

Mr. LORD. City National Bank & Trust Co.—may I find out just when those purchases were made? [After conferring.] We know that the purchases were made in 1931 and 1932.

Mr. PECORA. Is that the Battle Creek City National Bank & Trust Co.?

Mr. LORD. Yes, sir. This memorandum here [indicating] shows that the purchase from the City National Bank & Trust Co. of Battle Creek was January 8, 1932. In 1932 the City National Bank & Trust Co. of Battle Creek paid no dividends.

Mr. PECORA. What dividends had they paid for the year preceding, that is, the year 1931?

Mr. LORD. They paid $24,422.20.

Mr. PECORA. Representing what rate of dividend on the par capital stock?

Mr. Lord. I will have to get a report and find out what the capital stock was at that time. I think it was $500,000 capital. I will have to check it. [After referring to memoranda.] The capital stock of the City National Bank & Trust Co. of Battle Creek on December 31, 1931, was $600,000. Therefore the dividend amounted to approximately 4 percent.

The next purchase was National Bank of Ionia, made on January 11, 1932, $149,468.90. The National Bank of Ionia paid no dividends either in 1931 or 1932.

The next purchase was City National Bank & Trust Co. of Niles, $148,491.18, on January 8, 1932. In 1932 the City National Bank & Trust Co. of Niles paid no dividends.

Senator Couzens. What did they pay in 1931?

Mr. Lord. Three thousand seven hundred and fifty dollars, or at the rate of—they had a capital of $150,000 on December 1, 1931—$3,750 would be about 2½ percent, I believe.

The Guardian Bank of Dearborn. The purchase of those assets was made December 29, 1931, just before the close of the year. The Guardian Bank of Dearborn in 1932 paid $2,500 in dividends: in 1931, $25,997.50: and the capital stock on December 31, 1931, was $400,000. That meant about six and a fraction percent dividend in 1931 and a fraction of 1 percent in 1932.

Mr. Pecora. What was the amount of the take-out of doubtful assets?

Mr. Lord. The Guardian Bank of Dearborn, from this record given me, shows $130,646.79.

The Guardian Bank of Grosse Pointe—the take-out was made on December 31, 1931, amounting to $99,590.18. The Guardian Bank of Grosse Pointe paid no dividends either in 1932 or 1931.

The next item is Grand Rapids National Bank. The take-out was on December 30, 1931. The amount reported to me was $92,353.04. The Grand Rapids National Bank paid $25,000 in dividends in 1932 and $99,837.50 in 1931. It had a capital stock at the close of December 1931 of $1,000,000.

In other words, they paid 2½ percent in 1932 and slightly under 10 percent in 1931.

Mr. Pecora. And also, in other words, in 1931 the Grand Rapids National Bank paid out in dividends $99,000, whereas at the end of that year the Group found it necessary to take over slow and doubtful assets from that bank in the sum of $92,000 and odd?

Mr. Lord. Yes.

Mr. Pecora. It is true, is it not, that the Group owned all of the capital stock of the Grand Rapids National Bank?

Mr. Lord. Except directors' qualifying shares; yes, sir.

Mr. Pecora. As to which the Group had an agreement with the directors who held those qualifying shares to exchange them for shares of the Group?

Mr. Lord. When they ceased to be directors. Mr. Pecora, you say "necessary to take out." I cannot answer that question.

Mr. Pecora. I assumed it was necessary.

Mr. Lord. Advisable; certainly.

Mr. Pecora. Because it was done?

Mr. Lord. It was advisable or it would not have been done.

Mr. Pecora. Well, call it advisable.

Mr. Lord. The last record of purchases of assets was the Guardian Bank of Trenton. That was on December 29, 1931. It amounted to $78,090.90. The Guardian Bank of Trenton paid no dividends either in 1931 or 1932.

Mr. Pecora. Does that complete the list?

Mr. Lord. That completes the list, Mr. Pecora.

The Chairman. What was your idea, Mr. Lord, in purchasing stock of these banks and taking them over when they were not paying any dividends at the time?

Mr. Lord. They were paying dividends, sir.

The Chairman. You just said they did not pay any for the year you bought them.

Mr. Lord. That was after we bought them. Senator Fletcher, all of the capital stock of the unit banks of the Group had been acquired by the first of May, I should say, of 1930, and those banks that were purchased were, I think, without exception, regular dividend payers—certainly the older banks for quite a period of years. The only bank that was added to the Group after April 1930 or May 1930, whatever the final date was, was the Guardian Bank of Royal Oak, which we organized out of the Group funds without issuing any stock. We put $175,000 into that capital structure to put a bank in a community of 25,000 people that had not had a bank for two years. There were no banking facilities there. There had been three banks in Royal Oak, with total deposits at the time of something over $11,000,000, as I recall it. They were all gone. There were no banking facilities at all in Royal Oak; and the people there, some of the prominent business men, urged us continuously to start a bank, which we finally did. That bank is a 100 percent open and going great guns.

The Chairman. It seems that some of these banks which you bought in 1930 paid no dividends in 1931.

Mr. Lord. Correct.

The Chairman. What was the occasion for the banks dropping off—the overhead increasing?

Mr. Lord. No, not overhead increasing. It was a case of the depression and the business situation, Senator.

The Chairman. I would like to get clear, for my own information, this point. Perhaps I am stupid about it. But suppose I owned stock, say, 1,000 shares, in one of those unit banks and the Group suggested to that unit bank that it declare a dividend of 5 percent, and it declared that dividend of 5 percent. I own 1,000 shares as a director of the bank. That dividend does not come to me, but it goes to the Group, as I understand. I hold stock of the Group. I have to have that, do I not?

Mr. Lord. As a director in one of the unit banks you own 10 shares of the par value of $100 each.

Mr. Pecora. In other words, the minimum amount required by the law?

Mr. Lord. Yes, sir.

The Chairman. I understand that. What would I receive if you declared a 5 percent dividend?

Mr. Lord. You would receive the dividend that you would have gotten in the ownership of Group shares if you were not a director in that bank.

Mr. Pecora. In other words, the dividend on the stock of the bank which the director had to qualify would not go to that director, but would go to the Group?

Mr. Lord. Because the director had assigned those dividends.

Mr. Pecora. And in return for that the Group would, upon the declaration of its dividends, pay over to that director the amount of dividend that he would be entitled to receive if he had at that time the shares of Group stock taken on some basis of exchange, that he would be entitled to receive for the bank stock upon the termination of his directorship?

Mr. Lord. That is correct.

The Chairman. That is rather involved, to me; but as a practical illustration tell me what dividend I would get if I had a thousand shares.

Mr. Lord. It would depend upon what bank and the basis of exchange for the shares of that bank for Group stock, Senator. It was different depending upon the appraised value of those shares.

The Chairman. What I am trying to get at is this. As a director of the Group bank declaring a dividend of 5 percent I would be entitled to $50 dividend. But that does not come to me; that goes to the Group. I get the dividend of the Group from the stock that I own in that Group. What do I actually get out of that dividend?

Mr. Lord. We would have to take a particular instance and figure it out. I will be glad to do it for you if you want me to.

Senator Couzens. As a matter of fact, you might not get anything if the Group did not pay.

The Chairman. The Group was paying 3 percent, was it not?

Mr. Lord. Sixteen percent.

Mr. Pecora. $3.20 on the par value, which was $20 a share, which would be at the rate of about 16 percent per annum.

The Chairman. In other words, a director would get a certain dividend, a certain percent on his investment, if he got the dividend as a director of the bank, based on the declaration of dividends there. But he would get more if he took his dividend from the Group stock?

Mr. Lord. He might, or he might get less. Let us take perhaps the simplest instance. The old units of the Guardian Detroit Group, that is, the so-called "unified stock" of the Guardian Detroit Bank, were exchanged for Guardian Group stock on the basis of five for one. The old stock was $100 par and the Guardian Group stock was $20 par. So you had exactly the same aggregate par value. Now, if the Guardian Detroit Bank had declared a 10 percent dividend on its stock, that 10 percent dividend would go to the Group Co. Had you retained your old Guardian Detroit unit stock you would have gotten that 10 percent. The Group Co. itself, by the action of its own board, might declare that full 10 percent in dividends and might declare only 5 percent in dividends on your $20 par shares. It depended on whatever the Group directors declared out.

Does that clarify it a little bit?

The CHAIRMAN. At $3 a share you would get more dividend from the Group than you would from the bank?

Mr. LORD. On the basis of par value, if all that the Guardian Detroit Bank declared into the Group was declared on the Group stock also, your basis of percentage on your par value of that stock would have been exactly the same, because you had five shares at $20 par value in exchange for one share at $100.

The CHAIRMAN. I understand.

Mr. PECORA. Mr. Lord, Mr. A. A. F. Maxwell was secretary of the Group in 1931, was he not?

Mr. LORD. He was secretary at one time. When he resigned as secretary I do not recall.

Mr. PECORA. And as such secretary did he from time to time send letters to the executives of different bank units of the Group with regard to the declaration of dividends by such bank units?

Mr. LORD. He might have.

Mr. PECORA. Do you know of instances in which he did?

Mr. LORD. Not definitely, no, because I have none of his correspondence.

Mr. PECORA. Did he have a different form of letter from the one that you had in communicating with executives of unit banks on the matter of dividend declarations by such banks?

Mr. LORD. I do not know anything about his letters, Mr. Pecora.

Mr. PECORA. Will you look at this document which I now show you and which purports to be a photostatic reproduction of a letter sent by Mr. Maxwell, secretary of the Guardian Detroit Union Group, Inc., under date of June 11, 1931, to Mr. H. S. Reynolds, president of the Union & Peoples National Bank of Jackson, and tell me if you recognize it as a true copy of such a letter?

Mr. LORD. Mr. Pecora, I have never seen this before. I have no way of identifying it except that it is certainly a photostat and shows the Guardian Detroit Union Group on the top of it. There is no way in which I could identify it. I never saw it before. There is no way I could identify it.

Mr. PECORA. It is the correspondence of another man, written not by him in his individual capacity or right but written by him as secretary of your Group.

Mr. LORD. But I did not pass on his correspondence, Mr. Pecora.

Mr. PECORA. There was a Mr. Reynolds that was president of the bank referred to in that photostatic copy of a letter?

Mr. LORD. Yes, indeed.

Mr. PECORA. May we have that photostatic copy marked for identification?

(The document referred to, letter, June 11, 1931, Maxwell to Reynolds, was marked for identification "Committee's Exhibit No. 16", Dec. 20, 1933.)

Mr. PECORA. Was it part of Mr. Maxwell's duties as secretary of the group to communicate with the executive heads of unit banks of the group on the matter of dividends?

Mr. LORD. He was secretary of the company. I would not say that it was particularly part of his duties.

Mr. PECORA. Whose duties was it to send out such letters?

Mr. LORD. Excuse me, Mr. Pecora. I did not get the question.

Mr. PECORA. Of course you did not get the question. One of your associates was talking to you while I was addressing the question to you.

Mr. LORD. May I have the question?

(The pending question was read by the reporter.)

Mr. LORD. I do not know that it was anyone's specific duty. The letters that you presented yesterday would indicate that perhaps it was my duty.

Mr. PECORA. Can't you tell us definitely whose duty it was to send out such letters? You were the president of this group from its inception, and you surely ought to be able to tell us something about the assignment of duties.

Mr. LORD. Mr. Maxwell was secretary, and it may be that at times he was asked to send out such letters as he did send out in confirmation of verbal arrangements that had previously been made, and verbal conversations and suggestions as to the question of dividends. In practically every case of the letters that you referred to yesterday in the matter of dividends, those letters were more or less confirmation of personal conversations that were had with the heads of these various units. We had a budget. We knew what the banks were earning. We watched their earnings, and there was always discussion of the dividends with the heads of these institutions as to what their institutions would be justified in paying as dividends.

Mr. PECORA. Let me read to you the language employed by Mr. Maxwell in this letter of June 11, 1931, addressed to Herbert S. Reynolds, president of the Union & Peoples National Bank of Jackson [reading]:

GUARDIAN DETROIT UNION GROUP

Intra-group Memorandum

June 11, 1931.

To Mr. Herbert S. Reynolds,
President, Union and Peoples National Bank, Jackson.
From Mr. A. A. F. Maxwell,
Secretary, Guardian Detroit Union Group, Inc.

To provide for the dividend disbursement for the quarter ending June 30th, 1931, on the capital stock of the Guardian Detroit Union Group, Inc., units of the group are asked to declare dividends on their capital stock which are to be payable in each instance not later than June 26, 1931, to holders of record on that date.

Your proportionate share of the disbursement calls for a quarterly dividend of 5.9 per cent ($41,500) on the capital stock of your institution. Please forward your check covering the shares registered in the name of Guardian Detroit Union Group, Inc., and your directors (the dividends on which have heretofore been assigned) to Mr. Bert K. Patterson, vice president and treasurer, said check to be received not later than June 29th, 1931.

Your acknowledgement of the receipt of this memorandum and advices when your board has taken the necessary dividend action will be very much appreciated.

Secretary.

Mr. PECORA. That language would indicate to you, would it not, that the group was asking the Union & Peoples National Bank of Jackson, in June 1931, to declare a quarterly dividend at the rate of 5.9 percent, because that was that bank's proportionate share of the dividend disbursement which was to be made by the group.

Mr. LORD. That letter of itself would indicate it; yes.

Mr. Pecora. Would you suppose that Mr. Maxwell, in writing such a letter, was transcending his duties as secretary of the group?

Mr. Lord. I would suppose that Mr. Maxwell, in writing such a letter, was writing it in confirmation of previous conversations that I or some of his seniors had had with Mr. Reynolds in the matter of dividends.

Mr. Pecora. There is absolutely no mention of any previous conversation in this letter, is there?

Mr. Lord. No: but I know how the question of dividends was handled and discussed.

Mr. Pecora. How was it handled in this particular case?

Mr. Lord. I do not recall, but I know the general way it was handled. Mr. Reynolds would come to Detroit 2 or 3 or 4 times a month to discuss the affairs of his institution and policies, and the question of dividends undoubtedly came up in those discussions.

Mr. Pecora. You are quite sure of that, are you not?

Mr. Lord. On the basis of the way things were handled, Mr. Pecora.

Mr. Pecora. I say, you are quite sure of that?

Mr. Lord. To the best of my recollection. I cannot pin it on that particular date, but I do know that these discussions were constantly had with Mr. Reynolds and the other heads of these units.

Mr. Pecora. Could you refer this committee to any correspondence on that, to show that that was the custom and the practice?

Mr. Lord. No, sir: I could not; but I think if some of these unit heads were asked, they would tell you that was the way the thing was handled.

Mr. Pecora. All the correspondence heretofore put in evidence with regard to the declaration of dividends by the unit banks makes absolutely no mention of any prior conference.

Mr. Lord. I realize that.

Mr. Pecora. Now, I want to resume the matter of the transaction whereby there was acquired for Mr. Brewer——

Senator Adams. Was this 5.9 percent dividend actually declared?

Mr. Pecora. By this Jackson bank? Do you know, Mr. Lord?

Mr. Lord. I do not know. I have not the record on that. What year was that? I can tell you what they paid during the year.

Mr. Pecora. For the quarter ending in June 1931.

Mr. Lord. I have no quarterly record at all.

Senator Couzens. What was the yearly record?

Mr. Lord. In 1931 the bank paid, according to the figures shown here——

Mr. Pecora. $173,000, was it not?

Mr. Lord. $173,000.

Senator Couzens. What percent was that?

Senator Adams. What was the capital?

Mr. Lord. I will have to look up the capital. [After examining papers:] On October 31 the capital stock was $700,000. It was about a 25 percent dividend.

Senator Couzens. So, in effect, that dividend of 5.9 percent was paid.

Mr. Lord. I assume it was, Senator. I do not have it broken down.

Mr. PECORA. We can take it out of the realm of assumption or speculation if you will look at this letter which I now show you. Please tell us if that is a true and correct photostatic reproduction of a letter sent by Mr. Reynolds to you on the date it bears.

Mr. LORD. I recognize this signature of Mr. Reynolds. You said the letter was addressed to me. It is not.

Mr. PECORA. It is addressed to "Dear Pat."

Mr. LORD. Mr. Patterson.

Mr. PECORA. He was vice president.

Mr. LORD. Vice president and treasurer.

Mr. PECORA. I offer that letter in evidence.

The CHAIRMAN. Let it be submitted.

(The document referred to, letter Dec. 12, 1931, Reynolds to Patterson, was marked "Committee's Exhibit No. 17", December 20, 1933, received in evidence, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as Committee's Exhibit No. 17 of this date is as follows: It is written on the letterhead of the Guardian Detroit Union Group, Inc., and entitled "Inter-Group Memorandum." (Reading:)

GUARDIAN DETROIT UNION GROUP,
INTRA-GROUP MEMORANDUM,
December 12, 1931.

To B. K. PATTERSON,
Executive Vice President and Treasurer, Guardian Detroit Union Group, Inc., Detroit.
From H. S. REYNOLDS,
President, Union and Peoples National Bank, Jackson.

DEAR PAT: During this year we paid in to the group the following dividends:
March, $31,500.
June, $41,500.
September, $50,000.

We are accruing at the rate of $31,500 and with the payment of this amount will pay $154,500 for this year, or at the rate of $4.41 plus on our 35,000 shares.

I would like very much not to go beyond this amount unless you feel it is absolutely necessary, but of course will do our part.

Yours sincerely,

H. S. REYNOLDS.

Mr. PECORA. Mr. Reynolds apparently was anticipating the slogan of the N.R.A. at that time, about "doing our part", only the part was the part that the group desired them to perform.

Mr. LORD. During that year the operating earnings of the Jackson bank were $226,000 plus, and he paid out $173,000 in dividends.

Mr. PECORA. During the year 1931, a year when economic conditions were getting worse, generally speaking.

Mr. LORD. As we look back; yes.

Mr. PECORA. As you knew then.

Mr. LORD. I did not know they would get worse.

Mr. PECORA. They were getting worse currently during the year, were they not?

Mr. LORD. I do not know that they were getting any worse, Mr. Pecora.

Mr. PECORA. You, as the president of a bank and as the head of this group controlling some twenty-odd banks in the State of Michi-

gan, were not aware of the trend of economic conditions currently during the year 1931?

Mr. LORD. That was the period when business was expected to improve. You know that.

Mr. PECORA. I also know that the expectations were not realized. Didn't you know that?

Mr. LORD. They were not realized, but I did not know that they would not be realized.

Mr. PECORA. You knew that currently they were not being realized, didn't you?

Mr. LORD. True.

Mr. PECORA. To return to this transaction involving the acquisition of the 1,600 shares of the Grand Rapids National Bank stock, you have already identified a copy of a letter which you addressed to Mr. Brewer under date of August 24, 1929. Will you now be good enough to look at this document which I show you, and which purports to be a photostatic reproduction of a letter addressed by you to Mr. Brewer under date of September 18, 1929, and after looking at it, tell me if you recognize it to be a true and correct copy of a letter sent by you to Mr. Brewer on that date.

Mr. LORD. Yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(The document referred to, letter, Sept. 18, 1929, Lord to Brewer, was received in evidence, marked "Committee's Exhibit No. 18", Dec. 20, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as Committee's Exhibit No. 18 of this date, is apparently written on the letterhead of the Guardian Detroit Bank, dated September 18, 1929, and reads as follows [reading]:

SEPTEMBER 16, 1929.

(Personal)

Mr. JOSEPH H. BREWER,
Grand Rapids Trust Building,
Grand Rapids, Michigan.

DEAR MR. BREWER: Supplementing my letter to you of August 24, this will confirm our verbal understanding under which you have bought for us a total of One Thousand Six Hundred and One shares of stock of Grand Rapids National Bank at an aggregate cost of $862,895.75. You may consider that our agreement as to holding this stock, with your right to take it back from us, continues the same as covered in my letter to you of August 24, you to pay us the actual cost plus interest at the rate of 7 per cent per annum on our investment in the stock.

Very truly yours,

———— ————
President.

Mr. PECORA. Following the sending of this letter by you to Mr. Brewer, did you, under date of November 18, 1929, send to Mr. Brewer another letter relating to that same subject, a photostatic copy of which I now show you?

Mr. LORD. Yes, sir.

Mr. PECORA. I offer that letter in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, November 18, 1929, Lord to Brewer, was received in evidence, marked "Committee's Exhibit No.

19", December 20, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter which has been received in evidence and marked "Committee's Exhibit No. 19" of this date reads as follows [reading]:

NOVEMBER 18, 1929.

MR. JOSEPH H. BREWER,
President, Grand Rapids National Bank,
Grand Rapids, Michigan.

MY DEAR JOE: I did not telephone you today regarding the dinner which you and Mr. Waters suggested be held some time next week because we have all of us been up to our necks in trying to push through at an early date the Union Commerce and Guardian consolidation.

I will interrupt my reading to ask you, Mr. Lord, this question. That refers to the consolidation of the two bank holding companies which became effective on December 16, 1929?

Mr. LORD. Yes, sir.

Mr. PECORA. Under the name of the Guardian Detroit Union Group, Inc.

Mr. LORD. Yes, sir.

Mr. PECORA. Resuming the reading of the letter [continuing reading]:

As a matter of fact, I gave up my trip East and have been on the job over the week-end, having in mind that everything possible should be done to speed up the consolidation details, and there is going into the mail tonight a notice to the Guardian and Union Commerce stockholders, a copy of which notice is enclosed herewith for your information. I see no reason why we can not get together a crowd of Guardian and Union Commerce officials or directors to attend a dinner in Grand Rapids some time next week. Mr. Blair is still away, and as he has been feeling pretty rotten, we have hesitated to ask him to come back. However, he is expected back the latter part of this week, and just as soon as he returns I will get in touch with him and telephone you so that a definite date can be set.

In connection with the merger, we are trying to straighten out a lot of uncompleted details. You will recall that under an arrangement with you we bought 1601 shares of Grand Rapids National Bank stock at an aggregate cost of $862,895.75. This stock will be exchangeable, upon consumation of our examination of the Grand Rapids National and upon your being satisfied with the Guardian-Union situation, for three and a half shares of our stock for each share of yours, or a total of 5,603.5 shares. If agreeable to you, I would appreciate it if you would put this matter in the form of a note to the Guardian Detroit Bank or to the Guardian Detroit Company, the note to be signed by either you personally or you and Mr. Waters according to your respective interest in this stock; and I would also appreciate it if you would collateralize the note with, say, $200,000 of additional security in the form of bonds or other marketable stocks. I realize that this suggestion is not strictly in accord with the original arrangement made with you, but I am making this request in view of our expectation of being full partners with you and your institutions at an early date. The matter of our carrying charges on this investment was to be figured originally at 7 per cent. I am quite willing to reduce this to the current rate of 6 per cent if you will handle the matter on the basis suggested, and if you will sign and return one of the enclosed notes for the face amount of the principal, namely, $862,895.75. I can have a memorandum sent to you at a later date after the interest has been figured.

In further reference to that certain loan in the Grand National about which I spoke to you, I feel very strongly that if I were in your position I would arrange to have the loan paid at this time. I have information on the outside which leads me to believe that the company's business is in far from good shape and that their prospects for the coming year are not very encouraging.

With personal regards, I am

Very sincerely,

——— ———,
President.

Mr. PECORA. Did Mr. Brewer agree to the suggestion you made to him in this letter about sending in his note, or a note signed by him and Mr. Waters jointly, for the purchase price of those 1,601 shares of Grand Rapids Bank stock, and collateralizing it in part not only with the stock itself, but with $200,000 worth of marketable securities?

Mr. LORD. Mr. Pecora, I do not recall the final outcome, how much stock Mr. Brewer took up, or how much stock Mr. Waters took up. I have no record.

Mr. PECORA. You have no recollection beyond that which you have just given us?

Mr. LORD. No, I have not.

Mr. PECORA. Will you be good enough to look at this letter, which purports to be a photostatic reproduction of a letter sent to you by Mr. Brewer under date of November 21, 1929, apparently in reply to your letter to him of November 18, 1929, and tell me if you recognize it to be a true and correct copy of a letter received by you from Mr. Brewer on that date?

Mr. LORD. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(The document referred to, letter, November 21, 1929, Brewer to Lord, was received in evidence, marked "Committee's Exhibit No. 20", December 20, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter which has been received in evidence as Committee Exhibit No. 29 of this date is written on the letterhead of the Grand Rapids Trust Co., Grand Rapids, Mich., dated November 21, 1929, and reads as follows:

GRAND RAPIDS TRUST CO.,
GRAND RAPIDS, MICH., *November 21, 1929.*

ROBERT O. LORD,
President Guardian Detroit Bank,
Detroit, Mich.

DEAR MR. LORD: Referring to the request contained in your letter of the 18th instant, that I forward you note for $862,895.00 for 1,601 shares of Grand Rapids National Bank stock:

As I said to you over the telephone this morning, while I want to be of any assistance I can in the working out of your plans and do not want to embarrass you in any way at the same time I prefer that our original arrangement as set forth in your correspondence, should stand. You will recollect that when I suggested you purchase this stock I told you that in view of the large holding which I then had in the Grand Rapids National Bank I did not feel that I should take on any additional shares. You very kindly offered at that time to loan me the money on my note and I was obliged to decline the offer. I am not in any different situation now than I was then and do not feel that I can assume the obligation which you ask me to take on.

I understand, as you indicated in our conversation this morning, that it is desirable that your institution should not be carrying a large amount of its own stock and for that reason you would like to have me take this off your hands. If there is any other way in which I can assist in relieving the situation without changing my status I will be glad to cooperate with you.

As I said this morning, possibly by talking the matter over we might evolve some plan. Enclosed herewith you will find my check for $4,002.50, being a quarterly dividend on the 1601 shares which, through inadvertence in my office, has not been forwarded to you before.

Yours very truly,

JOSEPH H. BREWER.

Mr. PECORA. Does this letter serve to refresh your recollection concerning the action that was taken with regard to this transaction with Mr. Brewer?

Mr. LORD. Mr. Pecora, my recollection on the final outcome of that is very vague. I think that the Guardian Detroit Co. finally had to take over all that stock.

Mr. PECORA. By the way, Mr. Lord, does the reading of this letter refresh your recollection concerning the inception or initiation of this transaction to this extent? Does it indicate to you now that the reason for the acquisition of these 1,601 shares of the Grand Rapids National Bank stock was to prevent its falling into the hands of so-called "outsiders" at the time when you, in behalf of the group, were negotiating to have the group acquire control of the Grand Rapids National Bank?

Mr. LORD. Mr. Pecora, without seeing all the correspondence and without having a chance to go through it, my recollection is so vague on that that I just do not feel that I can testify.

Mr. PECORA. Mr. Lord, you have had the benefit, up to the present moment, of all the correspondence with the exception of one more letter which I will come to presently.

Mr. LORD. It is quite possible that we desired to buy those 1,600 shares with Mr. Brewer in order to be sure that the plan of consolidation would go through.

Mr. PECORA. Let us see if this will refresh your recollection more sharply than that. He says in this letter, among other things, as follows [reading]:

You will recollect that when I suggested you purchase this stock, I told you that in view of the large holding which I then had in the Grand Rapids National Bank I did not feel that I should take on any additional shares.

Does not that expression in Mr. Brewer's letter to you of November 21, 1929, clearly indicate to you now that you inspired this transaction, because of your desire to prevent 1,601 shares of the Grand Rapids Bank stock from falling into the hands of outsiders who, you understood, in August 1929 were trying to purchase it?

Mr. LORD. I would say, Mr. Pecora, that Mr. Brewer probably came to me and said:

These brokers are buying the stock. If you want this transaction to go through and be completed, the stock must be purchased.

As I say, my recollection is so vague that I hesitate to testify. It took place 4 years ago. The bulk of the arrangements were made by personal conversation with Mr. Brewer. It was made at a time when, as that correspondence showed, we were in the throes of a merger of the two groups, and my own recollection on it is so vague that I hesitate to attempt to give you the details.

Mr. PECORA. Is not that recollection refreshed by this correspondence?

Mr. LORD. Somewhat; yes.

Mr. PECORA. Is it refreshed to the extent that you——

Mr. LORD. Not in full; no; because I cannot remember all the conversations that were had with Mr. Brewer. Mr. Waters, as I recall it, was in Europe, or on his way back from Europe, and Mr. Brewer was working for Mr. Waters and for himself.

Mr. PECORA. But here is Mr. Brewer, in his letter of November 21, 1929, to you, reminding you that when he suggested you purchase that stock he told you that in view of the large holding which he then had in his own bank stock he did not feel that he should take on any additional shares.

Mr. LORD. Mr. Pecora, if that were so, why should we carry the stock and give Mr. Brewer the opportunity of buying it?

Mr. PECORA. That is what I want you to answer.

Mr. LORD. I do not know. I think Mr. Brewer's recollection of that was probably different from mine.

Mr. PECORA. Did you send Mr. Brewer a reply to this letter?

Mr. LORD. I do not know.

Mr. PECORA. In which you indicated a difference of opinion or recollection from his?

Mr. LORD. I do not recall. I may have discussed it with him. I may have written him. I do not recall.

Mr. PECORA. Now, let me show you another letter, a photostatic copy of which I show you, and which purports to be a copy of a letter addressed by you to Mr. Brewer on this subject under date of January 22, 1930. Will you look at it and tell me if it is a true and correct copy of such a letter sent by you to Mr. Brewer?

Mr. LORD. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Jan. 22, 1930, Lord to Brewer, was received in evidence, marked "Committee's Exhibit No. 21", Dec. 20, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter which has been received in evidence as Committee's Exhibit No. 21 of this date reads as follows [reading]:

JANUARY 22, 1930.

(Personal)

Mr. J. H. BREWER,
% Grand Rapids Trust Company,
Grand Rapids, Michigan.

DEAR JOE: I have been thinking over the question of the 7,204 shares of Guardian Detroit Union Group stock which the Detroit Company is now carrying. This stock was purchased primarily for you or for you and Mr. Waters, and while at the present time with a market of $120 the cost is two or three points in excess of that market, I think the fair thing would be for you to take over the stock because, frankly, I believe that within a year the stock will be worth anywhere from 25 to 50 points more than its present selling price.

My suggestion would be that the amount due on the stock be covered in two notes, one for $500,000 to the Guardian Detroit Bank and one for the balance of $379,433.45 to be made to the Guardian Trust Company. Our loaning limit in the bank is $800,000 unless we go to the board and secure the consent of two-thirds of the board members. We probably could make a temporary loan, using this stock as the major part of the collateral. However, it is likely that a loan of this size might be criticised by the Banking Commissioner if it had too large a proportion of Guardian Detroit Union Group stock as collateral. It would be my suggestion, if you have a substantial amount of other collateral of a readily marketable character, that perhaps some of the bank stock be removed and the other collateral be used. This would make the loan look less heavy with Guardian Detroit Union Group stock as security.

I realize that it is likely you will want to liquidate at some later date a portion of this bank stock, but I feel it would be very distinctly to your advantage to hold this stock for the next three to five years. I think with our situation throughout the State and with the economies we can make and the business

which we can build up that this stock should be worth within a five-year period not less than $300 a share, and I, personally, would be very happy to see you benefit by holding the stock rather than by selling it at anywhere near present prices. Perhaps you have other securities that could be liquidated so that you would not be carrying quite as heavy a loan against the bank stock. So far as the bank and trust company are concerned, we are willing to carry you on a substantial loan for any reasonable period, and it would be my suggestion that the notes covering this particular transaction be made out for a period of six months with the idea that they would be renewed for another period of six months, subject, of course, to the understanding that the loan would be placed elsewhere or taken care of in some other way if the Banking Commissioner requires us to take such a loan out of the bank on account of the collateral being represented in too large an amount by Guardian Detroit Union Group stock.

I am enclosing herewith a statement prepared by the Guardian Detroit Company which shows the status of the transaction with interest figured up to February 1. This statement also shows, as you will note, the two credits on account of dividends and also the $60 check which you sent covering the sale of one-half share of stock.

If these suggestions which I have made are satisfactory to you, if you will let me know what additional collateral you can substitute for a part of the bank stock, I will be glad to have the notes made out and sent to you so the transaction can be completed by February 1.

I shall be glad to have your ideas on the subject.

Very sincerely,

(Signed) Robert O. Lord,
President.

Now, does the reading of this letter refresh your recollection concerning the way this transaction was eventually handled?

Mr. Lord. Well, the reading of that letter refreshes my recollection up to date, but I could not tell you, except that Mr. Joseph H. Brewer finally ended up with a loan with the Guardian Detroit Bank or the Guardian National Bank of Commerce.

Mr. Pecora. Was that because Mr. Brewer finally agreed to take over this stock while it was being carried for him by either the Guardian Detroit Bank or the Guardian Detroit Co.?

Mr. Lord. I don't recall what he took over of the stock, Mr. Pecora. Mr. Brewer had holdings in the Grand Rapids National. He had a loan in the Guardian National Bank of Commerce. He put up Guardian stock. He put up outside collateral.

The Chairman. Do you recall, Mr. Lord, that the notes referred to in this letter were actually executed by Mr. Brewer?

Mr. Lord. Well, I do recall that Mr. Brewer had a loan in the Guardian Bank, and whether it originated in this transaction or from some later transaction I could not swear to it. I suppose it was in connection with this transaction.

The Chairman. Do you remember the amount of that loan?

Mr. Lord. No: I don't have the figure.

Mr. Pecora. Now, I want to go back for a moment, Mr. Lord, to your letter to Mr. Brewer of November 18, 1929, marked "Committee's Exhibit No. 19." In the concluding paragraph of that letter you make this statement:

In further reference to that certain loan in the Grand Rapids National about which I spoke to you, I feel very strongly that if I were in your position I would arrange to have the loan paid at this time. I have information on the outside which leads me to believe that the company's business is in far from good shape and that their prospects for the coming year are not very encouraging.

What was that "certain loan" that you refer to in this letter?

Mr. LORD. I cannot tell you the name of the corporation, but it was the loan to an industrial company in Grand Rapids; had nothing to do with this transaction whatever.

Mr. PECORA. Now will you look at this document which I now show you and which purports to be a photostatic reproduction of a letter from Mr. Brewer addressed to Mr. B. K. Patterson, vice president of the group, under date of April 13, 1931, to which is attached and in which reference is made to a letter addressed to Mr. Brewer as President of the Grand Rapids National Bank under date of April 10, 1931, signed by Henry F. Quinn, national bank examiner? Will you look at those documents and tell me if they refresh your recollection in any way with regard to the subject matter thereof?

Mr. LORD. I don't recall having seen this before, but I can identify this as Mr. Brewer's signature, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum dated April 13, 1931, from Joseph H. Brewer to B. K. Patterson, together with attached letter dated April 10, 1931, from Henry F. Quinn, national bank examiner, to Joseph H. Brewer, and also attached tabulation of loans and discounts and bonds and securities was thereupon designated "Committee Exhibit No. 22, Dec. 20, 1933", and the same appear immediately following as read by Mr. Pecora.)

Mr. PECORA. The letter that has been received in evidence and marked "Committee's Exhibit No. 22" of this date, reads as follows [reading]:

GUARDIAN DETROIT UNION GROUP

Intra-Group Memorandum

Date April 13, 1931.

To Mr. B. K. Patterson, Vice President, Guardian Detroit Union Group, Inc.
From Mr. Joseph H. Brewer, President, Grand Rapids National Bank

DEAR MR. PATTERSON: I enclose herewith copy of letter from Mr. Henry F. Quinn.

What are your suggestions?

Very truly yours,

(Signed) JOS. H. BREWER,
President.

There is a stamped and hand-written memorandum in the lower right-hand corner of this letter reading as follows:

"To Mr. Waldo from B. K. Patterson, date 4–17.

"We must"—"must" being underscored—"charge these off. R. O. L. does not"—"does not" being underscored—"want to disturb the earnings picture. What shall all do?"

Accompanying the letter to Mr. Patterson from Mr. Brewer is a copy of a letter addressed to Mr. Brewer reading as follows [reading]:

APRIL 10, 1931.

Mr. JOSEPH H. BREWER,
President Grand Rapids National Bank,
Grand Rapids, Mich.

DEAR SIR: There is herewith attached a schedule of estimated losses resultant from the examination of the Grand Rapids National Bank, Grand Rapids, Michigan, as of March 27, 1931.

Included in this list, as you will note, are certain items listed in the previous examination as losses that were not absorbed by the bank.

Losses as herein estimated should, of course, be promptly eliminated from the banks assets.

Yours very truly,

(Signed) HENRY F. QUINN
National Bank Examiner.

And attached to Mr. Quinn's letter is a schedule entitled "Loans and Discounts", and then follows enumeration of various loans, the aggregate amount of which is $111,196.46.

Senator TOWNSEND. What is the date of the letter?

Mr. PECORA. The date of the bank examiner's letter is April 10, 1931, and it is forwarded by Mr. Brewer to Mr. Patterson, vice president of the Group, on April 13, 1931.

The schedule is as follows:

LOANS AND DISCOUNTS

Name	*Amount*	
Dewey R. Moll	$79.42	
Richard Marquardt	330.75	
Mackinaw Shores Club	270.00	
Fred Steenman	49.35	
C. T. Allen	3,500.00	
W. B. Banks	4,000.00	
Pat Birney	3,526.33	
F. W. Cavender	5,503.87	
A. D. Crimmins	9,000.00	
F. G. Deane	5,000.00	
Dudley Lumber Company	9,100.00	
Earl Eifert	2,374.27	
Ray D. Fonger	2,515.00	
H. M. Freeman	5,000.00	
Festus Garratt	750.00	
Grand Rapids National Company	8,000.00	
Beecher Hale	4,196.00	
C. O. Hart	13,107.00	
E. K. Hill	391.75	
Myron B. Hopkins	976.51	
C. M. Hurd	844.20	
H. L. Johnson	1,156.93	
W. F. Mille	4,000.00	
G. W. Nicholson	3,070.83	
J. W. Parkhurst	3,800.00	
Tavis Lumber Company	3,000.00	
P. J. Peterson	3,000.00	
B. Vande Meulen	6,000.00	
W. E. Williams	2,962.25	
Portage Point Association	5,692.00	
	111,196.46	S.

BONDS AND SECURITIES

Continental States Utilities	16,706.25	
Seaboard All Florida	4,275.00	
American Tel. & Tel. Stock	21,000.00	
	153,277.71	S.
Depreciation on fixed assets, accrued throughout the fiscal period by reserves but not charged off at the end of the fiscal period as should have been done	28,287.85	
Total	181,565.56	

Mr. PECORA. Now, referring to the memorandum in the lower right-hand corner of Mr. Brewer's letter to Mr. Patterson [reading]:

R. O. L. does not want to disturb the earnings picture—

The reference to "R. O. L." is a reference to you, is it not, Mr. Lord?

Mr. LORD. I would assume so; yes.

Mr. PECORA. What is conveyed to your mind by that memorandum "R. O. L. does not want to disturb the earnings picture?"

Mr. LORD. I suppose that the charge-off should be made either by lift-outs or by charges to reserves. Now, the record shows I have given you this morning that in 1931 the Group Co. lifted out ninety-two thousand and odd also.

Mr. PECORA. Ninety-two thousand and odd dollars?

Mr. LORD. Dollars of assets.

Mr. PECORA. And that was at the end of the year in which the bank declared ninety-nine thousand and odd dollars of dividends?

Mr. LORD. Yes. And during that year also, according to the figures I have here, the bank wrote off on its own books 153,000 plus.

Mr. PECORA. No; but what I want particularly to have you tell us, Mr. Lord, is what you had in mind when you indicated that you did not want to "disturb the earnings picture."

Mr. LORD. I suppose it was the suggestion that those assets be taken out without charging them against current earnings.

Mr. PECORA. Was that a general policy that was followed in these unit banks?

Mr. LORD. What, the general policy?

Mr. PECORA. Take out slow or doubtful assets or bad loans in a fashion that would not disturb the earnings picture.

Mr. LORD. Mr. Pecora, the practice of banks——

Mr. PECORA (interposing). No, no; not the practice of banks: the practice of these banks is what I want.

Mr. LORD. All right, the practice of these banks and other banks——

Mr. PECORA (interposing). No; please confine yourself to the practice of the unit banks. "Sufficient unto the day is the evil thereof."

Mr. LORD. The practice of these unit banks was to accumulate reserves for just such a time as we ran into in 1930, 1931, and 1932, accumulate undivided profits for the protection of that bank and its depositors, and to take care of such necessary write-offs as took place.

Now, you know and I know that the banks during the past 3 years, few if any banks in the United States have been able to make their charge-offs out of current earnings. They have made the charge-offs out of reserves built up in former years, out of undivided profits, or from some other part of their capital structure.

Mr. PECORA. Did the Grand Rapids Bank have any such reserves available to absorb these bad loans?

Mr. LORD. They must have had——

Mr. PECORA. At the end of 1931?

Mr. LORD. They must have had a capital structure that absorbed the 153,000.

Mr. PECORA. I asked you about reserves, not capital structure.

Mr. LORD. I haven't the figures on the reserves.

Mr. PECORA. Well, I am still uncertain as to what you meant by your desire "not to disturb the earnings picture."

Mr. LORD. I thought I answered that question when I said not to charge those losses which perhaps were incurred from loans made in previous years to the current year's earnings but rather to reserves or undivided profits.

Mr. PECORA. How do you know that the loans referred to by Bank Examiner Quinn were loans made in previous years? The date of those loans is not given.

Mr. LORD. No loss would develop in 3 months, and that letter was written in April, was it?

Mr. PECORA. April 1931. Now, I ask you again, was it the general policy of the banks that were units of your group to so handle bad loans as not to disturb the earnings statements or pictures of those banks?

Mr. LORD. The general policy of the banks is to set aside reserves out of earnings, to charge losses againt reserves rather than directly against earnings. Now, in some years certain charges are made directly against earnings and in addition against reserves or against undivided profits.

Mr. PECORA. Doesn't that tend to give an inaccurate picture of earnings?

Mr. LORD. No. I think an operating earning statement, of earnings from operations, gives the most accurate picture of a bank's earning capacity.

Mr. PECORA. Now, where a bank, we would say, made earnings or had earnings from operations of $500,000 in a given period of time, and where during that given period of time it became necessary for the bank to make some dispostion of bad loans amounting to, say, $250,000, and the disposition made was a write-off or a take-out as you call it——

Mr. LORD (interposing). Well, there is a big difference between a write-off and a take-out.

Mr. PECORA. No, I am not referring to the two things as the same. You say "take-out." I will withdraw that question.

Where the bad loans are taken care of by a write-off or by the setting up of reserves that has the effect of preserving the appearance of the bank having actually earned from operations $500,000?

Mr. LORD. Not if the reserves statement is given also as it is shown in the balance sheet of any bank. I don't think there is any misconception from the standpoint of presenting the figures.

Mr. PECORA. Then what did you have in mind when you indicated to Patterson that you did not want to disturb the earnings picture?

Mr. LORD. I wanted an accurate picture of the operating earnings of the Grand Rapids National Bank to be shown. These losses were losses picked up from previous years' operations.

Mr. PECORA. You wanted the earnings to remain unimpaired or undiminished by reason of these write-offs, didn't you?

Mr. LORD. I wanted the earnings to be shown on the basis of the current year's operations.

Mr. PECORA. You wanted those earnings so shown that they would not be diminished by reason of these write-offs?

Mr. LORD. I would not say so.

Mr. PECORA. Well, is that a misstatement that I am making?

Mr. LORD. I would not say that was the only reason.

Mr. PECORA. Whether it was the only reason or not, was it a reason?

Mr. LORD. Mr. Pecora, I wanted the earnings of the Grand Rapids National to show accurately for the current period. I cannot answer it any better way than that. I am sorry.

Mr. PECORA. You wanted the earnings to show accurately without their being diminished in amount by reason of write-offs for bad loans?

Mr. LORD. Out of current earnings for previous loans made before 1931.

Mr. PECORA. Can't you answer my question categorically?

Mr. LORD. You mean yes or no?

Mr. PECORA. Yes.

Mr. LORD. Will you repeat the question?

The SHORTHAND REPORTER (Mr. Randolph):

> You wanted the earnings to show accurately without their being diminished in amount by reason of write-offs for bad loans?

Mr. LORD. Yes; I will answer that.

Mr. PECORA. And was that the general policy of the unit banks?

Mr. LORD. I spoke of the policy in setting up reserves and charging losses against reserves as against current performance.

Senator COUZENS. It would appear that the bank at that time did not have any reserves adequate to charge these off?

Mr. LORD. Senator Couzens, I do not know what their reserves were.

Senator COUZENS. It would appear that way.

Mr. LORD. It would appear so if the Group Co. lifted out that $92,000, or that they did not want to disturb the reserves.

Senator COUZENS. In other words, when the bank examiner sent those lists to charge off you had no place to charge off. Then what would happen was to have them lifted out unless you wanted them to affect the current earnings?

Mr. LORD. Part of them were lifted out, and there were charge-offs during that year of 150,000. But there must have been reserves.

Senator COUZENS. I am referring to this particular instance at this particular time.

Mr. LORD. Senator, I do not know what in the final charge-off those were charged against, whether they were part of the lifted-out assets or whether they were part of the assets that were charged on the bank's own books.

Senator COUZENS. Yes; but Mr. Brewer, who was president of the bank, was writing you for instructions or suggestions as to how he would handle the bank.

Mr. LORD. All right.

Senator COUZENS. And yet you have testified all along here that these directors had their own independent judgment, which they evidently had not.

Mr. LORD. He asked for suggestions, Senator.

Senator COUZENS. Yes. Well, why did he have to ask for suggestions when the whole power and control of the institution was

assumed to be in the board of directors, based on your assurance before the——

Mr. LORD (interposing). He did not have to ask for suggestions. He chose to get outside advice from the Group, which was one of the functions of the Group, to give advice.

Senator COUZENS. He did not have independent judgment, then.

Mr. PECORA. Mr. Lord, do you recall that sometime in January of this year an arrangement was entered into whereby Mr. Brewer obtained a loan of $15,000 from the Group?

Mr. LORD. Yes.

Mr. PECORA. Tell the committee about that arrangement.

Mr. LORD. Mr. Pecora, I can tell you from hearsay. I would rather that it be handled by someone who knows more about it than I.

Mr. PECORA. You were a party to the conversations in which that arrangement was effected, weren't you?

Mr. LORD. I don't think so. I can tell you the hearsay, if you want.

Mr. PECORA. Let us see what you can tell us.

Mr. LORD. All right. Mr. Brewer had a substantial loan with us. He was carrying substantial life insurance for the protection of his loan and his family.

Mr. PECORA. When you say "with us", to whom do you refer?

Mr. LORD. I mean the Guardian National Bank of Commerce.

Mr. PECORA. Pardon me—was that loan account created by this transaction whereby 1,601 shares of the Grand Rapids National Bank stock were acquired in 1929?

Mr. LORD. I don't know, Mr. Pecora. That loan had been on the books for sometime. I don't know where it originated from.

Mr. PECORA. How large a loan was it?

Mr. LORD. I would say somewhere between four and five hundred thousand dollars at the end. It had been larger and had been substantially reduced.

Mr. PECORA. All right; go ahead.

Mr. LORD. Now, speaking of this $15,000 loan, Mr. Brewster was in need of funds, either to pay his life insurance or interest or some other obligations. He came to the Guardian National Bank of Commerce to borrow the money. We felt that our holdings of Mr. Brewer's paper was sufficient and refused to loan him the money. He asked to secure the loan from the Group Co. itself. The Group Co. had certain obligations to meet in New York and Chicago and did not care to disburse their funds. Mr. Brewer was a close personal friend of Mr. Shorts.

Mr. PECORA. Who was Mr. Shorts?

Mr. LORD. President of the Second National Bank & Trust Co. of Saginaw.

Mr. PECORA. That was one of the units in your Group?

Mr. LORD. That was one of the units in the Group.

Mr. PECORA. Yes.

Mr. LORD. Mr. Shorts was very anxious to help Mr. Brewer. He apparently talked it over with his associates up there and suggested that their bank would be willing to declare to the Group Co. a dividend of approximately $15,000 if the Group Co. would help out

Mr. Brewer. Now, the Group Co. did loan that money finally to Mr. Brewer. The exact amount I think was $15,000. Mr. Brewer was the head of the two Grand Rapids institutions. It was felt by the Group Co. that it would be very unfortunate if Mr. Brewer was plunged into financial difficulties. It would be unfortunate for the institutions in Grand Rapids.

Now, that is very largely hearsay. I did not handle the loan. It was a matter either with Mr. Shorts or with Mr. Brewer.

Mr. Pecora. Are you sure that that is all hearsay?

Mr. Lord. I would say most of it. I knew that the loan was made. But according to my recollection it was—I may have had some part in part of it.

Mr. Pecora. Now, the reason I asked you that question is because I have copy of what purports to be a memorandum dated January 13, 1933, and which is captioned "Memorandum of understanding between Messrs. Shorts, Bodman, Brewer, Kanzler, Longley, and Lord." For your information I will read that memorandum and see if it refreshes your recollection.

Mr. Lord. It may.

Mr. Pecora [reading]:

> Upon the representation of Mr. Brewer that he was unable to meet interest payments on his obligations in Grand Rapids with the Grand Rapids National Bank, the Grand Rapids Savings Bank, and the old Kent Bank and with the Manufacturers Trust Co. of New York, and that he had requirements from the beginning of the year until September of some $38,000 to maintain his life insurance and his interest payments, and upon a further showing that he needed $15,000 at once to carry him until April 1, and by the further statement that he felt he could take care of these interest and insurance obligations out of receipts that he would acquire from his two hotel properties, the Pantland Hotel and the Morton House in Grand Rapids, it was decided that $15,000 would be loaned to Mr. Brewer upon Pantland Hotel stock, value $45,000.
>
> It was a further part of this arrangement that Mr. Shorts would arrange to have the dividend of the Second National Bank & Trust Co. declared at as early a date as possible in order to reimburse the Group Co. for this disbursement.
>
> This whole loan is made on the sole basis that it is to the interest of the Group Co. that, particularly at this time, no disturbance arises in Grand Rapids as a result of Mr. Brewer's being unable to meet these payments, which disturbance it is agreed is very likely to arise and seriously affect our Grand Rapids unit. It is felt that this arrangement is to the interest of the New York and Chicago banks who have a large interest in the Group Co.'s units continuing without any unnecessary disturbance, particularly at this time, while other major matters are being arranged for.

Mr. Lord. That is in line with my statement to you, is it not?

Mr. Pecora. Yes; substantially so.

Mr. Lord. That is my understanding.

Mr. Pecora. Yes; I would be disposed to compliment you on your recollection of this.

Mr. Lord. Thank you, sir.

Mr. Pecora. Now, it is clear, is it not, that in January of this year the situation presented by this memoraudum was that Mr. Brewer needed immediately $15,000 to take care of certain pressing obligations; that the Group made him a loan of $15,000 to accommodate Mr. Brewer and enable him to take care of his private obligations, but that the Group, as part of the arrangement for the making of that loan to Mr. Brewer, had arranged with Mr. Shorts,

the head of the Saginaw bank, the Second National Bank & Trust Co., to have that bank declare a special dividend which would be paid to the Group as a stockholder of the Saginaw bank in an amount that would more than cover the $15,000 loan which the Group made to Mr. Brewer?

Mr. LORD. I think that is so, and I see nothing out of the way with it. If the Saginaw bank's earnings were sufficient to declare a special dividend of $15,000 to the Group and the Group cared to loan it to Mr. Brewer on his security, I see nothing out of the way about it.

Mr. PECORA. You see nothing wrong with a unit bank declaring a special dividend?

Mr. LORD. No.

Mr. PECORA. Which was to be paid to the Group?

Mr. LORD. Yes.

Mr. PECORA. In order to reimburse the Group for the making of a loan to Mr. Brewer?

Mr. LORD. With security as collateral.

Mr. PECORA. You thought that was a proper exercise of the Group's influence over its unit bank, did you?

Mr. LORD. Do you think it was the Group's influence?

Mr. PECORA. What is that?

Mr. LORD. I don't think it was the Group's influence. I think this suggestion probably came from Mr. Shorts.

Mr. PECORA. Did Mr. Shorts suggest that the Group make this loan to Mr. Brewer and in return for the making of such loan his bank would declare a special dividend which would be paid to the Group and the amount of which would more than cover the loan?

Mr. LORD. Mr. Pecora, I am quite certain that nobody in the operating heads, either Mr. Kanzler or myself, of the Group, suggested to the Saginaw bank that they declare the dividend to help Mr. Brewer. The suggestion must have come from Mr. Shorts.

Mr. PECORA. Well now, this memorandum that I have read to you is entitled, I repeat, "The memorandum of understanding between Messrs. Shorts, Bodman, Brewer, Kanzler, Longley, and Lord."

Mr. LORD. Yes.

Mr. PECORA. Now, Mr. Shorts was the executive head of the Saginaw bank, was he not?

Mr. LORD. Yes, sir.

Mr. PECORA. Mr. Bodman was not connected with the Saginaw bank, was he?

Mr. LORD. No, sir.

Mr. PECORA. Mr. Brewer was not connected with the Saginaw bank, was he?

Mr. LORD. No, sir.

Mr. PECORA. Mr. Kanzler was not connected with the Saginaw bank, was he?

Mr. LORD. No, sir.

Mr. PECORA. Mr. Longley was not, was he?

Mr. LORD. No, sir.

Mr. PECORA. And you were not?

Mr. LORD. No, sir.

Mr. PECORA. So that, at this conference of 6 persons named, only 1 was an officer or director of the Saginaw bank, and the other 5 were officers and/or directors of the Group; is that correct?

Mr. LORD. Yes, sir. Isn't it possible the suggestion could have come from that one out of the six?

Mr. PECORA. For the benefit of the other 5?

Mr. LORD. For the benefit of Mr. Brewer.

Mr. PECORA. For the benefit of the Group represented by the other five, wasn't it?

Mr. LORD. I would say for the benefit of Mr. Brewer.

Mr. PECORA. Well, the 5 of the 6 persons who took part in this understanding or reached this understanding were officers and directors of the Group and the other one was an officer and director of the bank, the Saginaw bank. That is the situation.

Mr. LORD. Well, they were not all officers, but they were all directors.

The CHAIRMAN. You referred to some institution in Grand Rapids that Mr. Brewer was interested in. The First National Bank was one, and what was the other?

Mr. LORD. The Grand Rapids National Bank and the Grand Rapids Trust Co., Senator Fletcher.

The CHAIRMAN. And what became of them?

Mr. LORD. Well, the Grand Rapids National has been reorganized, and I think the trust company is in process or has been. Mr. Brewer is head of the new Grand Rapids reorganized bank.

The CHAIRMAN. When was that reorganized?

Mr. LORD. Some time this summer, as I remember.

Mr. PECORA. Now, I want to go back to Mr. Brewer's letter to you of November 21, 1929, which was received in evidence as exhibit no. 20 this morning, and let me read this portion of the letter to you [reading]:

I understand, as you indicated in our conversation this morning, that it is desirable that your institution should not be carrying a large amount of its own stock, and for that reason you would like to have me take this off your hands.

Mr. LORD. What he was referring to was carrying Group stock.

Mr. PECORA. I was just going to ask you. What is that?

Mr. LORD. What he was referring to was Guardian Detroit Union Group stock.

Senator COUZENS. Who put up the money to buy these 1,601 shares of Grand Rapids National?

Mr. LORD. The securities company from their capital.

Mr. PECORA. You mean the Guardian Detroit Co., which was the securities affiliate of the Guardian Detroit Bank?

Mr. LORD. Yes, sir.

Mr. PECORA. Of which you were the president?

Mr. LORD. Yes, sir.

Mr. PECORA. Were you also the president of the securities affiliate?

Mr. LORD. I was not, sir.

Senator COUZENS. Where did they get the money to——

Mr. LORD (interposing). They had 5 million capital and they had Group bank credit in New York and Chicago.

Senator COUZENS. Were they borrowing from New York and Chicago at the time they put up this money?

Mr. LORD. I don't recall, Senator. They were substantial borrowers in both New York and Chicago.

The CHAIRMAN. The committee will now take a recess until 2 o'clock.

(Accordingly, at 1 p.m., a recess was taken until 2 p.m. of the same day.)

AFTER RECESS

(The subcommittee resumed at 2 p.m., on the expiration of the noon recess.)

The CHAIRMAN. The subcommittee will resume. You may proceed, Mr. PECORA.

TESTIMONY OF ROBERT O. LORD, PENOBSCOT BUILDING, DETROIT, MICH.—Resumed

Mr. PECORA. Mr. Lord, I am not quite certain whether in your testimony this forenoon you told the committee who eventually took up the 1,601 shares of the stock of the Grand Rapids National Bank that was referred to in connection with your correspondence with Mr. Brewer on that subject.

Mr. LORD. Mr. Pecora, I told you in my testimony, I believe, that I did not know who eventually took up that stock, but I was rather under the impression that the Guardian Detroit Co. had to keep it.

May I say something, Mr. Pecora?

Mr. PECORA. Go ahead.

Mr. LORD. With regard to our discussion this morning—and this is rather interesting—as to the prognostications for business in 1931, at the time of some of these dividends, here is a clipping from the New York Times of March 8, 1931, which gives the prognostications of 13 services, and if I may, I will just read it. It is very brief.

The Harvard Economic Society's prognostication was this:

> The business depression is apparently close to if not actually at bottom.

The National City Bank of New York in their monthly paper says:

> Business men no longer feel they are looking down a black hole, but that they have taken the measure of the depression.

Cleveland Trust Co. (Colonel Ayres) says:

> Present indications are that we are at or near the bottom of this depression.

Babson's Statistical Organization says:

> Many think the rapid recovery in stock prices is sure sign clouds of 1930 have lifted. We do not agree.

Federal Reserve Bank at New York said:

> A few important indicators of business activity showed signs of greater activity.

Guaranty Trust Co., of New York, said:

> Indications are that immediate future will witness continued readjustment.

The Irving Trust Co., New York, said:

> Now certain that a number of basic industries have made headway recently.

Brookmire Economic Service, Inc., said:

> The major decline has approximately reached bottom.

Alexander Hamilton Institute said:

General business situation featured by moderately encouraging developments.

Van Strum Financial Service said:

Business recovery should continue after completion of seasonal upswing.

Investors Research Bureau, Inc., said:

Current reports reveal little more than usual seasonal fluctuations.

Wetsel Market Bureau, Inc., said:

Business shows signs of having turned the corner but recovery will be slow.

Silberling Business Service said:

It can hardly be said that there is any certain indication of a final return not subject to relapse.

Just a little indication of what anybody's prognostication amounted to.

The CHAIRMAN. What is the date of that?

Mr. LORD. March 8, 1931. This is clipped from the New York Times.

Mr. PECORA. Taking all those prognostications as a whole they did not tend to build up much optimism, did they?

Mr. LORD. No. It would indicate from the trend of them that they thought that the depression had reached the bottom and that the recovery, whatever it might be, would be slow. But that is rather interesting.

Mr. PECORA. Which was no ground for optimism as expressed in dividend declarations, was it?

Mr. LORD. Well, it depends on the dividend declarations.

Mr. PECORA. You remember that yesterday I asked you some questions as to whether or not the Comptroller of the Currency in the year of either 1931 or 1932 had requested banks to be extremely cautious and conservative about dividend declarations?

Mr. LORD. You asked that question this morning, Mr. Pecora.

Mr. PECORA. Yes; this morning. Now will you please look at the document which I now show you, and which purports to be a photostatic reproduction of a letter addressed to Mr. Maxwell, the secretary of your Group, under date of September 17, 1931, by Mr. F. M. Brandon, then the president of the City National Bank & Trust Co. of Niles, Mich. Do you recognize it as a true and correct copy of a letter among the files of your Group that was received by Mr. Maxwell [handing same to Mr. Lord]?

Mr. LORD (after examining same). I recognize Mr. Brandon's signature. I have no doubt of it.

Mr. PECORA. I offer that in evidence.

The CHAIRMAN. It may be received in evidence and placed in the record.

(Photostatic copy of memorandum to A. A. F. Maxwell from F. M. Brandon, dated Sept. 17, 1931, was received in evidence and marked "Committee Exhibit No. 23 of Dec. 20, 1933.")

Mr. PECORA. The letter received in evidence as committee's exhibit no. 23 reads as follows. It is on the letterhead of the Guardian Detroit Union Group, Inc., entitled:

INTRA-GROUP MEMORANDUM

To Mr. A. A. F. MAXWELL, Secretary Guardian Detroit Union Group, Inc.
From Mr. F. M. BRANDON, President City National Bank & Trust Company, Niles, Mich.
Subject

Mr. LORD. Excuse me, Mr. Pecora, what was the date of that?

Mr. PECORA. September 17, 1931. [Continuing reading:]

DATE SEPTEMBER 17, 1931.

DEAR MR. MAXWELL: Your memorandum of July 16 concerning the dividend requirements of units of the Guardian Detroit Union Group, Inc. is received.

The September meeting of our Board of Directors was held yesterday and the matter of dividends was discussed and no action taken. This is in harmony with the request of the Comptroller of the Currency, that current profits be used instead to take care of depreciation in the securities account.

If for any reason the management of the Group feel that different action should be taken and will promtply advise us, we shall call a special meeting of the Board of Directors for further consideration of the subject and will, therefore, appreciate hearing from you promptly.

Yours very truly,

(Signed) F. M. BRANDON
President.

Mr. PECORA. Do you recall what response, if any, was made to this letter from Mr. Brandon?

Mr. LORD. I do not.

Mr. PECORA. I now show you another document purporting to be a photostatic copy of a letter addressed to Mr. B. K. Patterson, the vice president of the Guardian Detroit Union Group, Inc., by Mr. Henry F. Quinn, national bank examiner, under date of September 19, 1931, and ask you if you recognize it to be a true and correct copy of a letter received by Mr. Patterson and included in the files of the Group.

Mr. LORD. I do not think I ever saw the letter before, nor Mr. Quinn's signature. I do not recognize it, but I have no doubt of it.

Mr. PECORA. Well, Mr. Patterson is here.

Mr. LORD. I haven't any doubt of it.

Mr. PECORA. You do not have any doubt that it is a true and correct copy of such a letter received by Mr. Patterson?

Mr. LORD. No, not the slightest.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It may be received in evidence and placed in the record.

(Photostatic copy of letter addressed to B. F. Patterson from Henry F. Quinn, dated Sept. 1, 1931, was received in evidence and marked "Committee Exhibit 24 of Dec. 20, 1933.")

Mr. PECORA. The letter has been received as Committee's Exhibit No. 24, written on the letterhead of the City National Bank & Trust Co., Niles, Mich. It reads as follows:

SEPTEMBER 19, 1931.

Mr. B. K. PATTERSON,
Vice President Guardian Detroit Union Group, Inc.,
Detroit, Mich.

DEAR MR. PATTERSON: I have completed an examination of the City National Bank and Trust Company of Niles, Michigan today, and there exists a problem in the bank which I believe you would be most interested in, before the report is submitted to the Comptroller's office.

I shall be in Detroit, Saturday, this coming week, and I have suggested to Mr. Brandon that he, your own good self, and I, have a conference in your office on that date, preferably right after noon.

Will you please advise me, as well as Mr. Brandon, if this suggestion meets with your pleasure.

Yours very truly,

(Signed) HENRY F. QUINN,
National Bank Examiner.

Mr. PECORA. I now show you another document purporting to be a photostatic copy of a letter or Intra-Group Memorandum addressed to Mr. Brandon by Mr. Maxwell, the Secretary of the Group, under date of September 24, 1931, which is apparently in reply to Mr. Brandon's letter to Mr. Maxwell, which is of September 17, 1931, which has already been offered in evidence as committee's exhibit no. 23. Will you look at this memorandum or letter to Mr. Brandon and see if you recognize it as a true and correct copy of such a letter or memorandum sent to Mr. Brandon? [Handing same to Mr. Lord.]

Mr. LORD (after examining same). I do not recall having seen the letter, but I assume it is a correct copy; yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It may be received in evidence and placed in the record.

(Photostatic copy of Intra-Group memorandum, to F. M. Brandon, President City National Bank & Trust Company, Niles, from Mr. A. A. F. Maxwell, Secretary, Guardian Detroit Union Group, Inc., dated Sept. 24, 1931, was received in evidence and marked "Committee Exhibit No. 25 of Dec. 20, 1933.")

Mr. PECORA. This letter has been received in evidence as Committee's Exhibit No. 25 of this date, and reads as follows, written on the letterhead of the Guardian Detroit Union Group, Inc. [reading]:

Date 9/24/31.

To Mr. F. M. BRANDON,
President City National Bank & Trust Co., Niles.
From Mr. A. A. F. MAXWELL,
Secretary Guardian Detroit Union Group, Inc.

DEAR MR. BRANDON: Your letter of September 17th has been received and referred to Mr. Patterson.

Undoubtedly there will be adjustments to be made after the conference with the National Bank Examiner, but Mr. Patterson feels that these charges should be taken care of through the surplus account. Will you, therefore, arrange to call a special meeting of your Board for the purpose of declaring the dividend as outlined in our previous memorandum of July 16th.

With kind personal regards,

Cordially yours,

——— ———
Secretary.

Mr. PECORA. I now show you what purports to be a photostatic reproduction of a memorandum or letter addressed to Mr. Maxwell in reply to the letter just read in evidence, by Mr. Brandon, under date of September 28, 1931. Will you look at it and tell me if you recognize it to be a true and correct copy of such a letter or memorandum among the files of the Group? [Handing same to Mr. Lord.]

Mr. LORD (after examining same). I do.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and placed in the record.

(Intra-Group memorandum dated Sept. 28, 1931, from F. M. Brandon, President City National Bank & Trust Co., Niles, Mich., to A. A. F. Maxwell, secretary Guardian Detroit Union Group, Inc., was received in evidence and marked "Committee Exhibit No. 26 of Dec. 20, 1933.")

Mr. PECORA. Committee's Exhibit No. 26 of this date, on the letterhead of Guardian Detroit Union Group, Inc., reads as follows:

To Mr. A. A. F. MAXWELL,
Secretary Guardian Detroit Union Group, Inc.
From Mr. F. M. BRANDON,
President City National Bank & Trust Co., Niles, Mich.

DEAR MR. MAXWELL: Your memorandum of September 24 with reference to quarterly dividends at this bank is received, and wish to advise that the writer explained the reason for our failure to pay September dividends to Mr. Patterson while in his office on September 26.

Yours very truly,

(Signed) F. M. BRANDON, *President.*

Mr. PECORA. Have you any knowledge or recollection of the explanation given by Mr. Brandon to Mr. Patterson in Mr. Patterson's office on September 26, 1931, which is referred to in this letter?

Mr. LORD. No; I have not.

Mr. PECORA. I now show you another document purporting to be photostatic copy of a letter or memorandum addressed to Mr. Frank M. Brandon by Mr. Maxwell, secretary of the Group, under date of September 29, 1931. Will you look at it and tell me if you recognize it to be a true and correct copy of such memorandum as contained among the files of the Group? [Handing same to Mr. Lord.]

Mr. LORD (after examining same). I assume that is a correct copy.

Mr. PECORA. I offer that in evidence.

The CHAIRMAN. Let it be admitted and placed in the record.

[Photostatic copy of Intra-Group Memorandum dated September 29, 1931, to Mr. Frank M. Brandon, President City National Bank & Trust Co., Niles, from Mr. A. A. F. Maxwell, Secretary Guardian Detroit Union Group, Inc., was received in evidence and marked "Committee Exhibit No. 27 of December 20, 1933."]

Mr. PECORA. The letter marked "Committee Exhibit No. 27" of this date, which is on the letterhead of the Guardian Detroit Union Group, Inc., reads as follows:

SEPTEMBER 29, 1931.

Mr. FRANK M. BRANDON,
President City National Bank & Trust Co.,
Niles, Michigan.

DEAR SIR: Your memorandum of September 28 is received, from which we note that you have discussed the dividend matter with Mr. Patterson. We assume, however, that you are calling a special meeting of your board for the purpose of declaring the regular dividend as originally requested.

A. A. F. MAXWELL, *Secretary.*

And on this letter is an inscription, in handwriting, reading:

No dividend paid this quarter.

Do you know in whose handwriting that inscription is?

Mr. LORD. May I look at it again?

Mr. PECORA. Certainly.

Mr. Lord (after looking at the letter). No; I do not recognize it. They did not pay a dividend that quarter, did they?

Mr. Pecora. Apparently not. In fact I know they did not. But doesn't it appear that despite the representations that were being made currently by Mr. Brandon to the Group, the Group through its officers and directors, was insisting currently that this dividend be declared in accordance with the original suggestions or requirements of the Group as set forth in its letter to Mr. Brandon of July 1931?

Mr. Lord. Mr. Pecora, I think it would appear from that correspondence that the matter of dividends is left to the discretion of the separate boards. There was a suggestion made for the payment of a dividend, and the board used its own judgment and did not declare it.

Mr. Pecora. After the officers of the bank had indicated to the Group that it should not declare the dividend requested by the Group, or suggested by the Group, because of the position taken by the Comptroller of the Currency, doesn't it appear from this correspondence that the Group was persisting in the making of the suggestion that the dividend be declared?

Mr. Lord. Yes; but it does show that the board acted on its own discretion, regardless of any suggestions made by the Group or its officers.

Mr. Pecora. And it does also show that after the officers of the bank had indicated their original judgment, which was against the declaration of a dividend, as had been suggested by the Group, that the Group persisted in asking the bank's board to call, then, a special meeting of its board in order to declare the dividend suggested by the Group. Isn't that clear from this correspondence?

Mr. Lord. It would seem to me so; yes.

Mr. Pecora. All right. Now, Mr. Lord, I want to show you what purports to be a photostatic copy of another memorandum, addressed to Mr. B. K. Patterson, executive vice president of the Detroit Union Group, by Mr. F. M. Brandon, president of the City National Bank & Trust Co. of Niles, Mich., under date of October 8, 1931. Will you look at it and tell me if you recognize it to be a true and correct copy of such memorandum in the files of the Group?

Mr. Lord (after looking at the letter). That is Mr. Brandon's signature.

Mr. Pecora. Mr. Chairman, I offer it in evidence and ask that it may be made a part of the record.

The Chairman. Let it be admitted, and the committee reporter will make it a part of the record.

(A letter dated October 8, 1931, from F. M. Brandon, President of the City National Bank & Trust Co., of Niles, Mich., to B. K. Patterson, Executive Vice President the Detroit Union Group, was marked "Committee Exhibit No. 28, Dec. 20, 1933", and will be found immediately following where read by Mr. Pecora.)

Mr. Pecora. The letter received in evidence as Committee Exhibit No. 28 of this date being on the letterhead of the Guardian Detroit Union Group, Inc., and indicated as an inter-Group memorandum, reads as follows:

To Mr. B. K. Patterson, executive vice president, Guardian Detroit Union Group, Inc.
From Mr. F. M. Brandon, President, City National Bank & Trust Co., Niles.
Subject Quarterly Dividend.

OCTOBER 8, 1931

In compliance with your telephone request a special meeting of our Board of Directors was held last evening to further consider the matter of quarterly dividend. The directors are hesitant about declaring a dividend at this time, having been recently advised by Examiner Quinn that the same would be illegal if made. However, they want to comply with the request of stockholders if the same can be done in a legal manner, and therefore requested me to advise you of the situation, and to ask the management of The Group to request the dividend by letter, and to indicate that The Group Company as stockholders will take care of any requirements of the Comptroller of the Currency, without in any manner changing the capital and surplus account of the bank.

I am assured by a majority of the Board of Directors that if this is done the dividend will be promptly declared, and I hope to hear from you tomorrow.

Yours very truly,

F. M. BRANDON, *President*

Now, Mr. Lord, do you know what happened after the receipt of this letter or memorandum from Mr. Brandon?

Mr. LORD. I do not.

Mr. PECORA. What was that answer?

Mr. LORD. I do not know. I do not recall it.

Mr. PECORA. Do you know whether or not the Group acted upon the suggestion of Mr. Brandon?

Mr. LORD. In what manner?

Mr. PECORA. As the letter suggested?

Mr. LORD. About the letter?

M. PECORA. Yes; about requesting the declaration of a dividend by letter.

Mr. LORD. I do not.

Mr. PECORA. And furthermore stating in its request for the declaration of such dividends that it, the Group, will take care of any requirements of the Comptroller of the Currency, without in any manner changing the capital and surplus account of the bank?

Mr. LORD. I do not recall it.

Mr. PECORA. Well, let me shown you by way, possibly, of refreshing your recollection on that subject, this paper which purports to be a photostatic copy of a memorandum addressed to Mr. Brandon by Mr. B. K. Patterson, under date of October 12, 1931. Will you look at it and tell me if it is a true and correct copy of such memorandum sent to Mr. Brandon by Mr. Patterson?

Mr. LORD (after reading the memorandum). I assume it is.

The CHAIRMAN. You assume it is?

Mr. LORD. Yes, sir.

Mr. PECORA. Mr. Chairman, I offer it in evidence, and ask that it may be made a part of the record.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(The memorandum addressed to Mr. Brandon by B. K. Patterson, under date of October 12, 1931, was marked "Committee Exhibit No. 29, December 20, 1933", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The memorandum which has been received in evidence and marked "Committee Exhibit No. 29" as of this date, and being on the letterhead of the Guardian Detroit Union Group, Inc., and an intragroup memorandum, reads as follows:

To Mr. F. M. BRANDON,
President City National Bank & Trust Co., Niles, Mich.
From B. K. Patterson,
Executive vice president, Detroit Union Group, Inc.

OCTOBER 12, 1931.

Answering your letter of October 8th in regard to the matter of quarterly dividend: After giving further consideration to this matter it is believed inadvisable to ask that the City National Bank & Trust Co. of Niles pay to the Guardian Group the dividend which was requested for the third quarter.

Does that letter, or memorandum, serve to refresh your recollection as to the action taken by the Group in this matter after the receipt of Mr. Brandon's letter of October 8, 1931?

Mr. LORD. Mr. Pecora, I do not believe that I attended a meeting with Mr. Quinn. I do not recall that I ever knew him, or ever saw him. Without knowing the details of that conference between Mr. Brandon, Mr. Patterson, and Mr. Quinn it is pretty difficult for me to comment on your question, or to answer your question. I suppose that when Mr. Patterson wrote that letter he had been convinced by Mr. Brandon or by Mr. Quinn that the dividend should not be paid, and he therefore acquiesced in it.

Mr. PECORA. Well, now, let us see about that. The letter of Mr. Quinn——

Mr. LORD (interposing). No dividend was paid.

Mr. PECORA. The letter of Mr. Quinn suggesting a conference with Mr. Brandon and Mr. Patterson was written on September 19, 1931, as appears from the evidence here. Notwithstanding that fact on September 24, 1931, Mr. Maxwell, secretary of the Group, apparently had written to Mr. Brandon, further suggesting the declaration of a dividend, as appears from Committee Exhibit No. 26. And on October 8, 1931, as appears from Committee Exhibit No. 28, Mr. Brandon wrote to Mr. Patterson, in which he says:

In compliance with your telephone request, a special meeting of our Board of Directors was held last evening to further consider the matter of a quarterly dividend.

Then in this letter Mr. Brandon proceeds to state that the directors were hesitant about declaring the dividend because they had been advised by Examiner Quinn that to do so would be illegal. Mr. Brandon further advised Mr. Patterson in this communication, that if the Group wanted his directors to declare this dividend they probably would do so if the Group would request it in writing, and if in that writing they would further say that the Group would take care of any requirements of the Comptroller of the Currency. So it would appear that even after such conference was held the Group was still insisting upon, and advising and suggesting, that a dividend be declared. Isn't that so?

Mr. LORD. Not having attended the conference, or knowing the gist of it, I cannot answer that question, because I do not know all the facts.

Mr. PECORA. Well, Mr. Lord, isn't your recollection of those facts refreshed by this correspondence?

Mr. LORD. No: apparently not. I do know that in that same year, at the end of the year, there was taken out of the Niles Bank, or the first of 1932, a total of $148,491 of assets.

Mr. PECORA. Of doubtful assets of the Niles Bank?

Mr. LORD. Yes, sir. And I assume that was the result of the conference that Mr. Patterson may have had with Mr. Quinn.

Mr. PECORA. And despite the fact that it was considered advisable or necessary in January of 1932 for the Group to take out doubtful assets from this Niles Bank to the amount you have mentioned, in the fall of 1931 the Group was insisting upon a dividend declaration being made, in September of 1931.

Mr. LORD. Until convinced that it was unwise.

Mr. PECORA. Now, 9 days after the sending of Mr. Patterson's memorandum to Mr. Brandon, which has just been read in evidence as Committee Exhibit No. 29, it appears that a communication was sent by Mr. John L. Proctor, Deputy Comptroller, Treasury Department, to the board of directors of the City National Bank & Trust Co. of Niles, Mich., according to a photosatic copy thereof which I have, which reads as follows:

TREASURY DEPARTMENT,
Washington, October 21, 1931.

BOARD OF DIRECTORS, CITY NATIONAL BANK & TRUST CO.,
Niles, Mich.

GENTLEMEN: A report of the examination of your bank completed September 19, a copy of which was furnished to you, shows that after allowing for the appreciation in United States securities and disregarding the depreciation in bonds coming within the classification of any of the four highest ratings by a disinterested and reliable concern engaged in the business of analyzing bonds and securities, losses of $14,476 on defaulted bonds, and the remaining bond depreciation of $105,927.71, consume the surplus fund, undivided profits, and reserves, excluding $14,819.12, which the examiner states is specifically allotted for taxes and interest, and impair the bank's capital to the extent of $34,638.27.

As the law contemplates that the capital of a national bank shall be kept intact at all times, immediate steps should be taken to restore the bank's capital, which it is recommended be done from voluntary cash contributions on the part of directors and/or other shareholders.

Losses aggregating $68,458.90, summarized on page 11, should be charged off or otherwise removed.

While the present conditions prevail in your bank it is not in a position to pay any dividends.

There is enclosed a form to be executed and returned to this office as soon as the bank's capital has been voluntarily restored.

It is incumbent upon you to recognize the unsatisfactory condition of the slow and doubtful assets, aggregating more than $500,000, or approximately 50 percent of the total loans and discounts, and to be keenly alive to economical conditions as they affect borrowers.

This large aggregate of criticized assets, with the potential losses thereon, demand that matters be taken vigorously in hand and everything possible done to effect their collection, reduction, and adequate securing.

Please advise of the action taken with respect to making good the existing impairment of capital, and whether the losses referred to above have been charged off or otherwise removed, as well as the action taken and the progress made in liquidating or satisfactorily adjusting the criticized assets, forwarding copies of your communication to Chief Examiner A. P. Leyburn, no. 164 West Jackson Boulevard, room 129, Chicago, Ill., and to Examiner Henry F. Quinn, post-office box 78, Grand Rapids, Mich.

Yours very truly,

JOHN L. PROCTOR, *Deputy Comptroller.*

Now, Mr. Lord, after having heard that communication read, do you recall whether or not its contents were ever brought to your attention?

Mr. LORD. I do not recall the details of the contents. I do know that the impairment of capital was repaired, and I assume that all other requirements of the Comptroller's office were carried out.

Mr. PECORA. When did you first learn that the capital of this Niles Bank, one of your Group units, had become as seriously impaired as the Deputy Comptroller of the Currency says it was in this letter?

Mr. LORD. I do not recall, but I assume that that letter was written and received by Mr. Brandon.

Mr. PECORA. You have been telling this committee consistently since you began testifying here on the subject that the general procedure pursued by the Group in making suggestions to its unit banks with regard to dividend declarations by them was that before suggesting such a thing the executive officers of unit banks would indicate, either by mail, telephone, or other conversation, what was the condition of the unit banks.

Mr. LORD. Yes, sir.

Mr. PECORA. Now, is that so or not?

Mr. LORD. It is so.

Mr. PECORA. That is so?

Mr. LORD. Yes, sir.

Mr. PECORA. Well, then, didn't Mr. Brandon, sometime prior to the time when the Group was suggesting that his bank declare a dividend, in September of 1931, indicate to you the true condition of his bank, of its impairment of capital and its consequent inability to declare a dividend?

Mr. LORD. I do not think that Mr. Brandon realized the condition of his bank until——

Mr. PECORA (interposing). He did not?

Mr. LORD. No; I do not think so.

Mr. PECORA. Do you mean to say that Mr. Brandon was the kind of a bank executive that he did not realize, until it was brought to his notice by the national bank examiner, what the real condition of his bank was, with regard particularly to the serious impairment of capital?

Mr. LORD. Mr. Pecora, later on——

Mr. PECORA (interposing). Will you just answer that question? Do you think that Mr. Brandon was that kind of bank executive?

Mr. LORD. I do.

Mr. PECORA. When did you first learn that he was that deficient?

Mr. LORD. After this examination.

Mr. PECORA. And not before?

Mr. LORD. But let me say this——

Mr. PECORA (interposing). And not before?

Mr. LORD. There was a question in our minds about Mr. Brandon for some time.

Mr. PECORA. Was he ever removed? I mean when that first came to your attention?

Mr. LORD. Not at first, but later.

Mr. PECORA. How long later was it?

Mr. LORD. I cannot remember the date when he was removed, but it was done by his own board of directors.

Mr. PECORA. And you don't know when it was?

Mr. LORD. It was before the bank holiday.

Mr. PECORA. The bank holiday was declared in the early part of this year.

Mr. LORD. Yes, sir.

Mr. PECORA. And this was back in 1931.

Mr. LORD. I do not know when he was removed. But I will try to find out for you.

Mr. PECORA. Mr. Patterson, back there in the room, just indicated by a shake of his head that he was not removed.

Mr. LORD. No; he said he did not know the date.

Mr. PECORA. Oh, he did not know the date?

Mr. LORD. No. And I do not recall the date of the removal.

Mr. PECORA. Can't you get it?

Mr. LORD. I would not know where to get it except from the bank's records. Mr. Patterson thinks it was in April of 1932.

Mr. PECORA. On April of 1932, some 6 months after you learned of his deficiencies?

Mr. LORD. I do not remember the date.

Mr. PECORA. The date of this was October of 1931.

Mr. LORD. All right. Sometime 6 months afterward; yes.

Mr. PECORA. All right. Now, I want to direct your attention to a matter concerning another one of your bank units, the Union State Bank of Dearborn. In that connection I want to show you what purports to be a photostatic copy of a letter addressed by you to Mr. Warren J. Rachow, president of the Union State Bank, Dearborn, Mich., under date of March 4, 1930. Will you kindly look at it and tell me if you recognize it to be a true and correct copy of such letter?

Mr. LORD (after reading the letter). I think that is correct.

Mr. PECORA. Mr. Chairman, I offer the letter in evidence and ask that it may be made a part of the record.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(A letter dated Mar. 4, 1930, to Warren J. Rachow, president, Union State Bank, Dearborn, Mich., by R. O. Lord, was marked "Committee Exhibit No. 30, Dec. 20, 1933", and will be found immediately following, where read by Mr. Pecora.)

Mr. PECORA. The letter just received in evidence as Committee Exhibit No. 30, of this date, reads as follows:

MARCH 4, 1930.

Mr. WARREN J. RACHOW,
President, Union State Bank,
Dearborn, Michigan.

DEAR MR. RACHOW: To provide the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share, the dividend should be declared at the March meeting of your Board of Directors. I would suggest, therefore, that it would be in order for your board to declare a dividend of 1½ percent for this quarter. This dividend should be payable not later than March 27th to stockholders of record March 17th, and a check to cover the dividend on the shares standing in the name of Guardian Detroit Union Group, Inc., as well as the shares standing in the names of your directors, should be in the hands of Mr. B. K. Patterson, Treasurer, Penobscot Building, Detroit, on that date or on the day following. Your proportionate share

of the expenses of the Group Company, incurred on account of services rendered by that company, will be figured and a memorandum sent to you at a later date.

Please be good enough to promptly confirm this arrangement and advise me upon the declaration of your dividend.

Very truly yours,

PRESIDENT.

And it is signed by yourself.

Mr. LORD. What is the date of that?

Mr. PECORA. March 4, 1930. It was the end of the first quarter of the existence of the Group.

Mr. LORD. Yes, sir.

Mr. PECORA. Do you recall what action was taken by the Union State Bank of Dearborn in response to this letter of yours?

Mr. LORD. I do not.

Mr. PECORA. Perhaps your recollection might be refreshed by looking at this letter, or what purports to be a photostatic copy of a letter, which I now show you, purporting to have been sent to you by Mr. Rachow, president of the Union State Bank of Dearborn, under date of March 7, 1930. Will you kindly look at it and tell me if you recognize it to be a true and correct copy of such a letter received by you about that time?

Mr. LORD (after reading the letter). I recognize Mr. Rachow's signature.

Mr. PECORA. Mr. Chairman, I offer it in evidence and ask that it be made a part of the record.

The CHAIRMAN. Let the letter be admitted, and the committee reporter will make it a part of the record.

(A letter dated Mar. 7, 1930, to R. O. Lord, written by Warren J. Rachow, President of the Union State Bank, Dearborn, Mich., was marked "Committee Exhibit No. 31, Dec. 20, 1933", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter which has just been received in evidence as Committee Exhibit No. 31, written on the letterhead of the Union State Bank of Dearborn, Mich., dated March 7, 1930, reads as follows:

MARCH 7, 1930.

Mr. ROBERT O. LORD,
President, Guardian Detroit Union Group, Inc.,
Detroit, Michigan.

DEAR MR. LORD: Replying to your letter of March 4th, subject—Quarterly dividend which should be paid by our bank not later than March 27th, to stockholders of record March 17th, 1930, and suggesting that we declare a dividend of 1½ per cent, desire to say.

At a regular meeting of our Board, held March 5th, this matter came up for action. Our director, Mr. Frank W. Blair, stated that 1½ per cent would not be enough, suggesting that it should be 3 per cent quarterly, placing us upon a basis annually of 12 per cent. The suggestion was put in the form of a motion which was duly supported and carried unanimously. We will, therefore, set up $6000.00 for this purpose and mail you our draft covering the stock standing in the name of the Guardian Detroit Union Group, Inc., and the shares standing in the name of our directors in the manner suggested by you.

Very truly yours,

WARREN J. RACHOW,
President.

Mr. PECORA. The Mr. Frank W. Blair referred to in this letter was, at the time this letter was written, chairman of the board of the Group, was he not?

Mr. Lord. I believe he was.

Mr. Pecora. He was not an officer of the Union State Bank of Dearborn, was he?

Mr. Lord. He was a director. I would not say he was not an officer; I do not know.

Mr. Pecora. Mr. Frank W. Blair was vice president, according to this letterhead.

Mr. Lord. Then he was.

Mr. Pecora. But according to the annual report of that bank for the year 1930, he was not an officer?

Mr. Lord. Mr. Blair is here. Perhaps he knows when he resigned as an officer.

Mr. Pecora. But he was a director?

Mr. Lord. Yes, sir.

Mr. Pecora. Do you know any reason why this particular bank at this time should have gone beyond your suggestion with respect to the dividend it should declare and to have accepted rather the suggestion of one of its directors, Mr. Blair, who happened at the time to be the chairman of the Group board?

Mr. Lord. I have not the slightest idea, Mr. Pecora. I was not at the meeting. So far as I know, I was never told the reason for that increase in the dividend. I assumed the bank could afford to make the increase. I do not know.

Mr. Pecora. Would you further assume that Mr. Blair, as chairman of the Group board, had an influence on the board of this bank that was enhanced because he was chairman of the Group?

Mr. Lord. I would not know that. I do not know what relationship Mr. Blair had with his fellow directors of the Union State Bank. I assume they respected him or they would not have had him as a director.

Mr. Pecora. Do you think they also respected his position as chairman of the Group board?

Mr. Lord. I have no doubt of it.

Mr. Pecora. Neither have I. Now, Mr. Lord, I want to show you a typewritten statement purporting to represent the amounts of dividends declared by different bank units of the Group to the Group during the years 1929, 1930, 1931, and 1932, respectively. Will you please look it over and tell us if it is a correct statement of such dividends?

Mr. Lord. Mr. Pecora, I have no way of checking the accuracy of this statement.

Mr. Pecora. Do you know Mr. Ubank?

Mr. Lord. Yes, sir.

Mr. Pecora. He is connected with the Group, is he not?

Mr. Lord. Yes.

Mr. Pecora. Do you recognize the initialing on the lower right-hand corner of that typewritten statement as the initials of Mr. Ubank?

Mr. Lord. He is here; I can ask him.

Mr. Pecora. Will you show it to Mr. Ubank and ask him if he confirms those figures?

Mr. Lord (after conferring). He does.

Mr. Pecora. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Typewritten statement showing amounts of dividends declared by various bank units of the Group during the years 1929, 1930, 1931, and 1932, respectively, was received in evidence, marked "Committee Exhibit No. 32, Dec. 20, 1933.")

Mr. PECORA. The exhibit which has been received in evidence as Committee's Exhibit No. 32 of this date shows that during the year 1929 certain of the unit banks of the Group paid to the Group dividends aggregating $886,104; that during the year 1930 such banks paid to the Group dividends aggregating $5,000,866.60; that during the year 1931 the unit banks, or some of them, paid in the aggregate to the Group dividends amounting to $3,194,093.49; that during the calendar year 1932 unit banks paid dividends aggregating $663,000, making a total paid to the Group by the unit banks for all of the calendar years 1930, 1931, and 1932, and for the last month or so of 1929, dividends aggregating $9,744,064.09; and that during the year 1933 a dividend of $15,625 was paid to the Group by the Second National Bank & Trust Co. of Saginaw, and that a dividend of $30,000 was paid to the Group by the Highland Park State Bank, the total of which two amounts is $45,625, which should be added to the total already stated of $9,744,064.09.

I show you another typewritten statement entitled "Guardian Detroit Union Group, Inc., Summary of Cash Dividends." Will you look at it and tell me if the figures shown thereon correctly set forth the cash dividends paid out by the Group for the periods of time specified therein, which commence with the 20th of June 1929?

Mr. LORD. I assume it is correct. I recognize Mr. Ubank's signature on it.

Mr. PECORA. Mr. Ubank has confirmed the correctness of it, has he not?

Mr. LORD. He has initialed it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The typewritten statement referred to, entitled "Guardian Detroit Union Group, Inc., Summary of Cash Dividends", was received in evidence, marked "Committee Exhibit No. 33, Dec. 20, 1933.")

Mr. PECORA. The paper which has just been received in evidence as exhibit 33 of this date shows total cash dividends paid by Guardian Detroit Union Group, Inc., beginning with June 20, 1929, and ending on March 25, 1932, the sums aggregating $9,293,639.90.

When was the last cash dividend declared by the Group? It was in March, 1932, was it not?

Mr. LORD. It was paid April 1, 1932.

Mr. PECORA. For the first quarter of 1932?

Mr. LORD. Yes.

Mr. PECORA. And that was the last cash dividend?

Mr. LORD. A 25-cent dividend.

Mr. PECORA. Why were dividends discontinued after that time?

Mr. LORD. Because it was felt wiser to conserve the resources of the institution.

Mr. PECORA. Now I will ask you another question, Mr. Lord. Who prepared the annual reports that were sent to the stockholders of the Group?

Mr. LORD. I would say they were prepared by numerous people.

Mr. PECORA. Who were they?

Mr. LORD. The executive committee of the Group Co., the accounting department of the Group Co., principally.

Mr. PECORA. Will you mention the individuals who were especially active in the preparation of the annual reports?

Mr. LORD. I do not think there was any particular individual, Mr. Pecora. Myself, Mr. Kanzler, chairman of the board; Mr. Walsh, while he was there; Mr. Huelsman who came as comptroller; Mr. Patterson, while he was there, sat in on it. There were a number of people, Mr. Pecora.

Mr. PECORA. When those annual reports were finally prepared and issued, they were issued over your signature as president of the Group, were they not?

Mr. LORD. On order of the board of directors or the executive committee, whatever it was.

Mr. PECORA. The last annual report, of course, was issued in the early part of the year and covered the calendar year 1932?

Mr. LORD. There was no annual report issued for that year.

Mr. PECORA. There was not?

Mr. LORD. No, sir.

Mr. PECORA. Was it ever proposed to issue one?

Mr. LORD. I think it was being worked on, and then this loan matter and the holiday came along and it never was published.

Mr. PECORA. Who was working on it?

Mr. LORD. I would say the same general crowd, except Mr. Patterson. Mr. Huelsman and all of us, the executive committee, were working on it.

Mr. PECORA. Did the work on the preparation of that report reach a stage where it was reduced to writing in any form?

Mr. LORD. I believe so; yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such proposed report. Will you look at it and tell me if you recognize it as such?

Mr. LORD. This looks somewhat familiar in spots.

Mr. PECORA. Do you recognize the handwriting in the pencil interlineations that appear on the face of the document?

Mr. LORD. I do not, Mr. Pecora.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Copy of proposed Annual Report of Guardian Detroit Union Group, Inc., referred to, was received in evidence and marked "Committee Exhibit No. 34, Dec. 20, 1933", and will be found printed in full at the end of today's transcript.)

Senator COUZENS. When did Mr. Patterson leave your organization?

Mr. LORD. He did not leave the organization until after the holiday and Mr. Huelsman took a more active part in the comptroller's end of the business. Mr. Patterson was doing more out-State work in connection with the bank and their liquidation program.

The CHAIRMAN. How many of these unit banks had closed their doors before the holiday?

Mr. LORD. None of them.

The CHAIRMAN. They were all open in this Group until the holiday?

Mr. LORD. They were all open until the holiday, every one of them.

Mr. PECORA. That holiday was declared last February, was it not?

Mr. LORD. In Michigan; yes, sir.

Mr. PECORA. I mean the one declared by the Governor of the State.

The CHAIRMAN. I had reference to the holiday beginning March 5.

Mr. LORD. No banks were allowed to reopen in Michigan prior to that holiday, Senator Fletcher. You see, the Governor declared a State holiday that continued up right through March 5 and beyond.

The CHAIRMAN. That State holiday was declared in February?

Mr. LORD. The 13th or 14th.

Senator COUZENS. It became effective on the 14th.

The CHAIRMAN. 1933?

Mr. LORD. Yes, sir.

The CHAIRMAN. And no banks were open after that until when?

Mr. LORD. Until after March 10, when the President and the Secretary of the Treasury licensed the banks.

Mr. PECORA. How many of these units were not permitted to reopen after the Federal bank holiday had been declared?

Mr. LORD. I may not be accurate, but I will give you the best information I can. This, I think, is correct: The First National Bank of Kalamazoo opened 100 percent after the national holiday; the City National Bank & Trust Co., of Battle Creek; Second National Bank & Trust Co., of Saginaw; Highland Park State Bank, of Highland Park; First National Bank, of Port Huron; Grand Rapids Trust Co., Grand Rapids; Bank of Hamtramck; Guardian Bank, of Royal Oak, and Guardian Bank, of Dearborn.

Mr. PECORA. Eleven banks?

Mr. LORD. Yes.

Mr. PECORA. They were permitted to reopen?

Mr. LORD. Yes, sir; that is my recollection.

The CHAIRMAN. Some were State banks?

Mr. LORD. Yes, sir; there were five. No, Mr. Pecora; that was not 11 banks; that is 9 banks.

The CHAIRMAN. Five of them were national?

Mr. LORD. No; wait a minute. Five State institutions and four national institutions in that list.

The CHAIRMAN. And they continued open?

Mr. LORD. Yes, sir.

Senator COUZENS. All of them?

Mr. LORD. The Highland Park State Bank and the Bank of Dearborn have been taken into the Manufacturers' National Bank, of Detroit.

The CHAIRMAN. Those were the only ones opened after the national holiday?

Mr. LORD. Yes, sir. Here are some that have since been reorganized, Senator Fletcher: Grand Rapids National, Union & People's National, and the City National at Niles.

The CHAIRMAN. They have been reorganized since?

Mr. LORD. Yes, sir.

The CHAIRMAN. And probably doing business or will do business?

Mr. LORD. I think they are doing business now.

Mr. PECORA. Mr. Lord. I will question you tomorrow with regard to that draft of the proposed report for the year 1932 that has been marked in evidence as "Exhibit No. 34." Meanwhile I will pass on to another subject. I show you what purports to be a photostatic reproduction of a so-called "intra-Group memorandum" addressed by you to the directors of the Guardian Detroit Bank under date of January 21. 1931. on the subject of favorable comment from Guardian "Rooters." Will you look at it and tell me if you recognize it to be a correct copy of such an intra-Group memorandum prepared and submitted by you to the board of directors of the Guardian Detroit Bank?

Mr. LORD. It is.

Mr. PECORA. It is?

Mr. LORD. I think so.

Mr. PECORA. I offer it in evidence.

(Photostatic copy of Intra-Group memorandum addressed by R. O. Lord to the directors of the Guardian Detroit Bank under date of Jan. 21, 1931, was received in evidence, marked "Committee Exhibit No. 35. Dec. 20. 1933.")

Mr. PECORA. The document that has been marked "Committee's Exhibit No. 35" in evidence. is on the letterhead of the Guardian Detroit Union Group. Inc.. entitled "Intra-Group Memorandum" to the directors of Guardian Detroit Bank, from Mr. Robert O. Lord, president——

Senator COUZENS. Before you start reading that: Who were the "Guardian Rooters" referred to in the memorandum?

Mr. LORD. Other banks. the friends——

Senator COUZENS. There was no specific organization?

Mr. LORD. There is no organization of "Guardian Rooters"; no. sir.

Senator COUZENS. That is what I mean.

Mr. LORD. No. sir. We had a group. but not a "Rooters" organization.

Mr. PECORA [reading]:

> On January 2. 1931. there appeared in the Detroit newspapers a brief news item to the effect that the deposits of Guardian Detroit Bank had increased by $9.500.000 during the past three months to a new peak of $124,096,976.65. Clippings of this news item were sent to all bankers with whom Guardian maintains banking relationships—with the additional information that all of the twenty-three banks and trust companies comprising Guardian Detroit Union Group, Inc.. showed on December 31, 1930, "Bills payable—NONE".
>
> Extracts from letters written by these bankers—commenting upon the above—are reproduced below as being of possible interest to you.

And then follow extracts from letters of executive officers of 59 banks or other corporations, and one from Mr. R. E. Reichert. commissioner of banking of the Michigan State Banking Department.

(Exhibit No. 35 will be found in full at the end of today's record.)

Mr. PECORA. I am not going to read at this time all of these comments that are embodied in this exhibit. Among them, however. is one from the president of the National City Bank of New York, one from a vice president of the Chase National Bank——

Senator COUZENS. Does it give the names of the officers of those two famous banks?

Mr. PECORA. They are both very brief comments. I will read them in full [reading]:

NATIONAL CITY BANK OF NEW YORK, N.Y.

I appreciate your letter of January 2d. You have made a good showing.

GORDON RENTSCHLER, *President*.

THE CHASE NATIONAL BANK, NEW YORK CITY.

You have every reason to be proud of the Guardian Detroit Bank, as well as the Group.

RICHARD R. HUNTER, *Vice-President*.

You did not get any from Mr. Wiggin, did you?

Mr. LORD. I did not see it there, Mr. Pecora.

Senator COUZENS. Or Mr. Mitchell?

Mr. LORD. Mr. Rentschler.

Senator COUZENS. You did not hear from Mr. Mitchell?

Mr. LORD. No, sir.

Mr. PECORA. One of these comments in your Intra-Group memorandum marked "Committee's Exhibit No. 35" is from the Vice President of the Irving Trust Co. of New York, and is as follows [reading]:

We congratulate your institution, and especially so for the liquidity indicated by your statement, that the several banks comprising your group were completely out of debt at the close of 1930. If all the banks of the country pursued a similar policy there would be a far greater stability in banking and less unsettlement during unusual periods.

Senator COUZENS. Was that a fact, Mr. Lord, that all your banks were out of debt?

Mr. LORD. Certainly—except to the depositors.

Senator COUZENS. We will see about that later.

Mr. PECORA. I notice that one of these comments——

The CHAIRMAN. What is the date of that?

Mr. PECORA. This is dated January 21, 1931.

I notice that one of these comments, from a Guardian rooter, is from C. W. Banta, Vice President of the Bank of America, New York, and reads as follows [reading]:

If I may be permitted to use a superlative, the showing of all the 23 banks and trust companies is little short of miraculous, considering all the uncertainties and disturbances of the day.

The concluding comment that appears in this exhibit is from Mr. R. E. Reichert, commissioner of banking of the State of Michigan, and reading as follows [reading]:

I have your letter enclosing a newspaper clipping, and want to congratulate you upon the condition of the institutions in your group. I am certainly pleased to see you say that not any of the 23 banks and trust companies comprising your group owe the Federal Reserve Bank or any other bank a single penny. It is certainly a very healthy condition, and a very comfortable one to be in at the present time

(Signed) R. E. REICHERT, *Commissioner*.

Now, Mr. Lord, was it true that all the unit banks of the Group had no bills payable?

Mr. LORD. I assume it was if those were their published statements.

Mr. PECORA. Were they their published statements at the time you prepared this Intra-Group memorandum which is dated January 21, 1931?

Mr. LORD. I would have to look over the December 31, 1930, figures. Is that what I was referring to?

Mr. PECORA. You did refer, in this Intra-Group memorandum, to that by saying [reading]:

> All the 23 banks and trust companies comprising Guardian Detroit Union Group, Inc., showed, on December 31, 1930, "bills payable, none."

Mr. LORD. I assume that is correct. I would have to check it absolutely.

Mr. PECORA. You prepared this memorandum, did you not?

Mr. LORD. Yes.

Mr. PECORA. And had it issued?

Mr. LORD. I assume it was correct at the time, yes. I have no reason to believe it was not.

Mr. PECORA. Do you know now that not a single one of the 23 banks and trust companies that comprised your Group on December 31, 1930, had any bills payable of any kind?

Mr. LORD. I would have to check the published statements of December 31, 1930.

Senator COUZENS. Just a minute. Why do you say "published statements"?

Mr. LORD. Because each bank published its own statements.

Senator COUZENS. And you had no other information than that which pertained to the published statements; is that correct?

Mr. LORD. What kind of information, Senator?

Senator COUZENS. As to the bills payable?

Mr. LORD. We had weekly reports.

Senator COUZENS. So, the only information you had when you prepared that memorandum was the published statements?

Mr. LORD. The memorandum was based upon the published statements.

Senator COUZENS. You had no other information, other than was contained in the published statements, is that correct?

Mr. LORD. I do not know what you mean by "other information."

Mr. PECORA. That is a simple term.

Mr. LORD. I had a lot of other information about all the banks.

Senator COUZENS. Among that lot of other information you had, did you have any information to sustain your contention that there were no bills payable in any of those 23 constituent units of yours? You remember, now, Mr. Lord, and I want to remind you, that you are under oath.

Mr. LORD. I realize that.

Senator COUZENS. I want to know whether you had any information outside of the published statements as to whether or not any of these 23 units had bills payable.

Mr. PECORA. On December 31, 1930.

Senator COUZENS. Yes.

Mr. LORD. Senator, if that statement was made, it was made in good faith on the basis of the information I had.

Senator COUZENS. Whether from published statements or intradepartment communications, or otherwise, is that true?

Mr. LORD. I think so.

Senator COUZENS. You do not answer that definitely. Are you trusting to your memory?

Mr. LORD. Data like that are prepared in some other departments frequently. I do not keep the books. You must rely, or I had to rely, upon information given to me by employees in the organization at all times. No man could cover the whole thing.

Senator COUZENS. Do you now believe that that statement was true, in fact?

Mr. LORD. I think it was, or it would not have been stated.

Senator COUZENS. But subsequent information has not indicated to you that that statement is true or untrue? I ask that question.

Mr. LORD. No, sir.

Senator COUZENS. You have no subsequent information?

Mr. LORD. Not that would indicate that that statement made in there is other than true.

Senator COUZENS. All right.

Mr. PECORA. I show you what purports to be a printed copy of the Annual Report issued by the Guardian Detroit Union Group, Inc., as of December 31, 1930. Will you look at it and tell me if you identify it as a true and correct copy of the annual report that was so issued by you as president of the Group?

Mr. LORD. These statements, as shown in this report, would indicate that there were no bills payable, unless you want to consider that the Highland Park Trust Co. first-mortgage bonds outstanding are bills payable.

Mr. PECORA. No. I merely asked you to look at that printed document and tell us, if you can identify it as a true and correct copy of the annual report that was issued by you, as of December 31, 1930.

Mr. LORD. It is, sir.

Mr. PECORA. I offer it in evidence, but in view of its voluminous character I do not think it need be spread on the minutes.

The CHAIRMAN. Let it be admitted in evidence and filed.

(The document referred to, Annual Report Guardian Detroit Union Group, Inc., Dec. 31, 1930, was received in evidence, marked "Committee's Exhibit No. 36", Dec. 20, 1933, and the same was ordered filed.)

Mr. PECORA. I shall make reference to certain extracts from this report from time to time. This report has been received in evidence as Committee's Exhibit No. 36 of this date, and on page 10 thereof, under the caption "Aggregate Resources and Liabilities of Banks and Trust Companies Affiliated with Guardian Detroit Union Group, Inc. as of December 31, 1930" appears this item, under the caption of "Liabilities: Bills payable, none." You notice that, do you not, Mr. Lord, the next to the last item on that page?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, Mr. Lord will you tell this committee whether or not there was a settled policy on the part of the group to have its unit banks show no bills payable at any time in their statements or reports?

Mr. LORD. I would say it was a settled policy of the banks to show no bills payable, or to keep them at a minimum, at all times.

Mr. Pecora. Was that settled policy of a kind which enabled the unit banks to make in their reports the statement of no bills payable at any time, because bills payable which were in existence were temporarily taken care of by some process or device?

Mr. Lord. May I ask you to repeat the question?

(The reporter read the pending question.)

Mr. Lord. Read it again, please.

(The reporter again read the pending question.)

Mr. Lord. Read it again. It is not clear to me, at the end.

Mr. Pecora. I want it to be fully clear to you.

(The reporter again read the pending question.)

Mr. Lord. I would say it was the policy of the group that the units should make a satisfactory showing on the date of the statements.

Mr. Pecora. Well, was that satisfactory showing designed to be satisfactory despite the facts?

Mr. Lord. I would not think so.

Mr. Pecora. Can you tell this committee whether, at or about the time when unit banks were about to be examined, either by the State banking department or by the Comptroller of the Currency, or at or about the time when they were expected to publish reports, they owed bills, but by the adoption of some method or device or process, those bills payable were temporarily taken care of so that they would not be shown upon an examination of the bank or in any published report of condition.

Mr. Lord. Mr. Pecora, no bank knows when an examination is to be made, so that it would not be possible. For instance——

Mr. Pecora. How about when banks were about to make statements?

Mr. Lord. I think the effort was made at all times to make a good statement.

Mr. Pecora. Won't you please answer my previous question, Mr. Lord, more specifically than you have?

Mr. Lord. The one that I asked to be repeated?

Mr. Pecora. No; the one after that.

Mr. Lord. May I ask you to read that?

(The reporter read as requested.)

Mr. Lord. I have answered the first part of it.

Mr. Pecora. Yes; you have answered the first part. Now answer the second part relating to the publication of reports of condition by the bank.

Mr. Lord. The question involves so many things. Read it and leave out the first part.

Mr. Pecora. Let me phrase it again.

Mr. Lord. All right. Phrase it again. You have put two things in there.

Mr. Pecora. I will make it as simple as I possibly can. From time to time, Mr. Lord, your unit banks were required to publish reports of condition, were they not?

Mr. Lord. Yes, sir.

Mr. Pecora. At any of those times did any of those unit banks have bills payable which were taken care of temporarily in some fash-

ion so as to make it unnecessary to show those bills payable in published reports of condition?

Mr. LORD. Yes, sir.

Mr. PECORA. How was that done, Mr. Lord?

Mr. LORD. It was done usually by either the Guardian Detroit Bank buying some of their assets and supplying them with cash or depositing funds in the form of C.D's.

Mr. PECORA. Just enlighten us further about the allusion to "C.D's." Do you mean certificates of deposit?

Mr. LORD. Certificates of deposit.

Mr. PECORA. What was the reason for doing that?

Mr. LORD. That the bank should make an excellent showing.

Mr. PECORA. In other words, was not this one of the reasons, to enable the unit banks to make reports which would show no bills payable, despite the fact that there were actually bills payable?

Mr. LORD. Yes. May I interject something at this point?

Mr. PECORA. Surely.

Mr. LORD. For a great many years the bankers in this country had very foolishly adopted the idea that it was something to be ashamed of for a bank to show borrowed money. In spite of——

Mr. PECORA. Mr. Lord, are you not undertaking entirely too much to speak for all the bankers of this country?

Mr. LORD. Just a minute, please, Mr. Pecora. Let me finish, please.

Mr. PECORA. I do not want the record encumbered with your observations as to what all the bankers of this country thought or did, because I do not think you or any other individual is competent to assert that.

Mr. LORD. All right. Then, might I say that, generally speaking——

Senator COUZENS. That is too wide a field.

Mr. LORD. The public had been educated to a point where to have a bank show bills payable was some criticism of the bank.

Mr. PECORA. Who was the educator in that respect?

Mr. LORD. The bankers themselves, and I blame them for it.

Mr. PECORA. Were you one of those bankers?

Mr. LORD. Probably, long before I came to Detroit.

Mr. PECORA. How universal was that practice?

Mr. LORD. I would say fairly universal. That is, during the past 3 years, with the public fear and distrust, that complex that the bankers had was accentuated. On top of that, we had the publicity clause in the R.F.C. law, requiring or permitting the R.F.C. to publish the statement of its loans.

Senator COUZENS. Please make that statement over again.

Mr. LORD. The R.F.C. required the publication of R.F.C. loans. Isn't that correct, under the law?

Senator COUZENS. When?

Mr. LORD. Last summer.

Senator COUZENS. But that has nothing to do with these other statements.

Mr. LORD. I am just showing the whole picture.

Senator COUZENS. Just leave out irrelevant and immaterial matters in discussing these other matters, because the R.F.C. publicity

of bank loans did not occur until after these events we are talking about.

Mr. LORD. All right. Eliminate that. The complex still remained in the minds of the public that it was a criticism of the bank to show bank loans. With the public fear and distrust, and the complex of panic, it was necessary that every bank, or at least most banks considered it necessary, to make the best showing they possibly could at the time of publication of statements, for their own and their depositors' protection.

The CHAIRMAN. They would do that, you mean to say, by borrowing money from somebody?

Mr. LORD. Or securing deposits that would eliminate their borrowed money.

The CHAIRMAN. And then, after that was all over, they would get back to the——

Mr. LORD. They might.

Mr. PECORA. They did in the case of your unit banks, did they not?

Mr. LORD. In some cases; yes.

Mr. PECORA. Have you finished your answer.

Mr. LORD. I think I have.

Senator COUZENS. Before you go on, when you had these bills payable, were they secured?

Mr. LORD. Always.

Senator COUZENS. So, in effect, that security still remained with bills payable, although your statement, in itself, showed no bills payable.

Mr. LORD. It did not.

Senator COUZENS. You withdrew the security?

Mr. LORD. We had no claim on the security when we had a deposit in the bank.

Senator COUZENS. But you had the security.

Mr. LORD. It might have been in our possession, but we had no claim on it, any more than if I were borrowing money and paid my note, and left the collateral with the bank.

Senator COUZENS. I think we will show, in a few days, that it was very necessary to have the collateral, which would not have been available for depositors' claims.

Mr. LORD. I do not know what cases you are talking about, Senator Couzens. I cannot answer that question.

Mr. PECORA. Mr. Lord, if, as you have just told us, it was a rather universal practice among bank executives to temporarily take care of bills payable in order that they might show in their published reports that they had no bills payable, whereas in truth and in fact they did have, why did you, in the information that you caused to be sent out in January 1931, to different bankers with whom the Guardian institutions maintained banking relationships, include the specific information—and I am now quoting from your memorandum, Committee's Exhibit No. 35—that all the 23 banks and trust companies comprising Guardian Detroit Union Group, Inc., showed, on December 31, 1930, "bills payable, none", and you had the "none"

written out in capital letters? If that was the universal custom, bankers receiving that information would take it as a matter of course, would they not?

Mr. LORD. I do not know how they would take it.

Mr. PECORA. Isn't it normal to expect that that is what they would have done?

Mr. LORD. I suppose so; yes, sir.

Mr. PECORA. But instead, apparently a lot of these bankers thought that you had performed a miracle in making statements in behalf of your 23 banks that showed that they had no bills payable at all, because one of these banking officers, one of the Guardian " rooters ", you will remember, according to Exhibit No. 35, said: " If I may be permitted to use a superlative, the showing of all the 23 banks and trust companies is little short of miraculous." Apparently that bank officer was unaware of the legerdemain by which this miracle was performed. Isn't that so?

Mr. LORD. Mr. Pecora, wasn't my statement to the effect that the banks throughout the county endeavored to make the best showing they could?

Mr. PECORA. No; your statement, as I recall it, was far more specific than that. Your statement was that the banks had educated the public into a fear complex respecting banks that owed bills.

Mr. LORD. I don't think it was quite as strong as that.

Mr. PECORA. Well, if it was not quite as strong as that, that is the way I understood it. Didn't you intend it to be that strong?

Mr. LORD. I said the bankers had very foolishly educated the public on the question of the criticism of the banks when they showed borrowed money, as I recall it.

Senator COUZENS. And so as to overcome that you created a device to hide it?

Mr. LORD. I would not call it a device, Senator.

Senator COUZENS. Well, I think that the record shows, Mr. Lord, clearly it was a device, because you yourself testified a while ago, without going into specific cases, that you made every effort to avoid showing bills payable.

Mr. LORD. We did, sir.

Senator COUZENS. But you did not pay up your bills payable to avoid the showing, because you say yourself that there were occasions where there were bills payable that were bills payable shortly after reinstatement?

Mr. LORD. I think there probably are, sir.

Senator COUZENS. Yes.

Mr. LORD. Let me say this in that connection, in connection with the Guardian Detroit Bank, as in the case of many large banks: It found itself with a surplus fund beginning with the 15th of December until after the first of the year. Is there any reason—there certainly is none that I know of—why those funds, instead of being sent to Wall Street or to Chicago, should not be placed in our own institution?

Senator COUZENS. Are you asking me a question?

Mr. LORD. I am asking that as a question.

Senator COUZENS. But the truth of the fact is you did not have any surplus funds. These were not actual transfers because they were canceled in 2 or 3 days.

Mr. LORD. They must have been actual funds, Senator Couzens. There was no other way of doing it.

Mr. PECORA. I will in detail by documentary proof, Mr. Lord, show how it was done.

Senator COUZENS. Yes; perhaps I am running ahead of the story.

Mr. PECORA. Yes. But while we are on this phase of the story let me read from your intragroup memorandum, marked "Exhibit No. 35", on the subject of "favorable comment from Guardian rooters" this "root" from Ben Mills, president of the Liberty National Bank, Oklahoma City, Okla.:

> The newspaper clipping is indeed interesting, taking into consideration the sentiment that obtains in other parts of the country. As is always the case, it depends upon the management.

Mr. Mills was quite observant, wasn't he? He said it all depends on the management.

Mr. LORD. I would not know what he meant by that.

Mr. PECORA. Well, you assumed that he was making a very favorable comment?

Mr. LORD. I would think so; yes.

Mr. PECORA. On the newspaper clipping that you sent out to all these bankers and which purported to show that on December 31, 1930, not one of the 23 banks that were units of the group had a single bill payable?

Mr. LORD. I would assume so.

Mr. PECORA. He was crediting the management with that showing, wasn't he?

Mr. LORD. I would assume so.

Mr. PECORA. Do you suppose Mr. Mills, when he bestowed this praise, had in mind this "universal practice" that you have referred to?

Mr. LORD. I don't know what he had in mind.

Mr. PECORA. Well, now, apparently the banking commissioner of the State of Michigan was unaware of that universal banking practice, because he seems to have been quite impressed by that portion of the information that you sent to him with respect to "none of the unit banks in your group having any bills payable on December 31, 1930", and that appears from his comment to you reading as follows, reading it from Exhibit No. 35:

> I have your letter enclosing a newspaper clipping. Want to congratulate you upon the condition of the institutions in your Group. I am certainly pleased to hear you say that not any of the 23 banks and trust companies comprising your group owe the Federal Reserve Bank or any other bank a single penny. It is certainly a very healthy condition and a very comfortable one to be in at the present time.

So that apparently your banking commissioner was unaware of this universal custom?

Mr. LORD. He must have been aware of everything that went on, because he had access to all the State banks.

Mr. PECORA. Well, but you would infer from this favorable comment from him that it was the usual thing for banks to have no bills payable?

Mr. LORD. I would not infer that from it; no.

Mr. PECORA. You would infer quite the contrary, wouldn't you?

Mr. LORD. I would think so.

Mr. PECORA. So that Mr. Reichert was not aware of this universal custom apparently?

Mr. LORD. Of showing no bills payable?

Mr. PECORA. Yes.

Mr. LORD. I think he must have been aware of that; yes.

Mr. PECORA. Why was he complimenting you specifically upon the fact that your banks showed not a single bill payable, if he knew it was the universal custom?

Mr. LORD. Let me ask what you mean by the "universal custom"—of showing no bills payable?

Mr. PECORA. Exactly what you meant by it. I am using your language.

Mr. LORD. Of showing no bills payable?

Mr. PECORA. Yes.

Mr. LORD. I think he meant it in a complimentary way, of the showing of the banks.

Mr. PECORA. He thought it was an unusual showing, did he not?

Mr. LORD. Yes; I think he must have.

Mr. PECORA. What is that?

Mr. LORD. I would gather so from his letter.

Mr. PECORA. It would not be an unusual showing in his opinion if he knew that such a showing was simply due to universal custom and not to the fact? Isn't that logical?

Mr. LORD. I would think so; yes.

Mr. PECORA. That is logical, isn't it?

Mr. LORD. Sounds logical.

Mr. PECORA. Now, Mr. Chairman, it is 5 minutes to 4. The evidence I have I want to bring out by this witness I think can be reserved until tomorrow morning.

The CHAIRMAN. We will take a recess now until 10:30 tomorrow morning.

(Accordingly, at 3:55 p.m., the committee adjourned until 10:30 a.m. of the following day.)

COMMITTEE EXHIBIT NO. 32—DECEMBER 20, 1933

Dividends

	1929	1930	1931	1932	Total paid to Group Company
Guardian National Bank of Commerce	$284, 979. 00	$1, 761, 782. 00	$1, 625, 000. 00	$350, 000. 00	$4, 021, 761. 00
Union Guardian Trust Company	150, 000. 00	923, 032. 50	500, 000. 00	50, 000. 00	1, 623, 032 50
Highland Park State Bank	112, 500. 00	280, 000. 00	240, 000. 00	105, 000. 00	737, 500. 00
Highland Park Trust Company	24, 750. 00	24, 000. 00	15, 000. 00		63, 750. 00
Union Ind. Tr. & Svgs. Bank, Flint		319, 796. 00	40, 000. 00		359, 796. 00
Grand Rapids National Bank		99, 350. 00	99, 837. 50	25, 000. 00	224, 187. 50
Grand Rapids Trust Company		59, 860. 00			59, 860. 00
Union & Peoples Nat'l Bank, Jackson	24, 375. 00	147, 100. 00	173, 000. 00	20, 000. 00	364, 475. 00
Second Natl. Bank & Trust Co., Saginaw		225, 000. 00	165, 000. 00	35, 000. 00	425, 000. 00
First Natl Trust & Svgs. Bank, Pt. Huron	21, 000. 00	101, 380. 00	65, 000. 00	12, 000. 00	199, 380. 00
Capital National Bank, Lansing		145, 000. 00	90, 000. 00	50, 000. 00	285, 000. 00
First Natl Bank & Trust Co., Kalamazoo		59, 052. 50	88, 500. 00	10, 000. 00	157, 552. 50
City Natl Bank & Trust Co., Battle Crk		68, 956. 80	24, 422. 20		93, 379. 00
Guardian Bank of Dearborn	3, 000. 00	41, 748. 80	25, 997. 50	2, 500. 00	73, 246. 30
Michigan Industrial Bank, Detroit		19, 730. 00	15, 000. 00	2, 500. 00	37, 230. 00
The National Bank of Ionia		12, 600. 00			12, 600. 00
City Natl Bank & Trust Co., Niles		15, 000. 00	3, 750. 00		18, 750. 00
Guardian Bank of Trenton		4, 000. 00			4, 000. 00
Guardian Bank of Grosse Pte		6, 300. 00			6, 300. 00
Bank of Hamtramck					
Guardian Detroit Company	265, 500. 00	485, 000. 00			750, 500. 00
Keane, Higbie & Company		125, 000. 00			125, 000. 00
Union Joint Stock Land Bank		70, 340. 00	19, 996. 29		90, 336. 29
Blanchard State Bank		848. 00			848. 00
Clinton Savings Bank		1, 400. 00	2, 590. 00		3, 990. 00
Thompson Savings Bank		2, 400. 00			2, 400. 00
Remus State Savings Bank		525. 00			525. 00
State Bank of Six Lakes		425. 00			425. 00
State Savings Bank, Stanton		600. 00			600. 00
State Bank of Vestaburg		640. 00			640. 00
Guardian Safe Deposit Company			1, 000. 00	1, 000. 00	2, 000. 00
New Union Building Company					
Guardian Detroit Union Group, Inc.					
	$886, 104. 00	$5, 000, 866. 60	$3, 194, 093. 49	$663, 000. 00	$9, 744, 064. 09

	1933
Second Nat. Bank & Trust Co., Saginaw	$15, 625. 00
Highland Park State Bank	30, 000. 00
	45, 625. 00

COMMITTEE EXHIBIT NO. 33, DECEMBER 20, 1933

Guardian Detroit Union Group, Inc., summary of cash dividends

Div. No.	Record Date	Date Paid	Regular	Special	Total	Total Shares	Amount Paid	Total for Year
1	6-20-29	7-1-29	50¢	25¢	75¢	312, 500	$234, 375. 00	
2	9-20-29	10-1-29	50¢	25¢	75¢	394, 500	295, 875. 00	
3	12-10-29	12-31-29	50¢	25¢	75¢	474, 472	355, 854. 00	$886, 104. 00
4	3-17-30	3-31-30	50¢	30¢	80¢	1, 537, 451¾	1, 229, 961. 40	
5	6-16-30	6-30-30	50¢	30¢	80¢	1, 542, 975¾	1, 234, 380. 60	
6	9-25-30	9-30-30	50¢	30¢	80¢	1, 543, 181	1, 234, 544. 80	
7	12-22-30	1-2-31	50¢	30¢	80¢	1, 543, 262	1, 234, 609. 60	4, 933, 496. 40
8	3-23-31	4-1-31	50¢		50¢	1, 543, 766	771, 883. 00	
9	6-22-31	7-1-31	50¢		50¢	1, 544, 078	772, 039. 00	
10	9-25-31	10-1-31	50¢		50¢	1, 544, 081	772, 040. 50	
11	12-28-31	1-2-32	50¢		50¢	1, 544, 110	772, 055. 00	3, 088, 017. 50
12	3-25-32	4-1-32	25¢		25¢	1, 555, 088	386, 022. 00	386, 022. 00
								9, 293, 639. 90

COMMITTEE EXHIBIT NO. 34—DECEMBER 20, 1933

To the Stockholders, Guardian Detroit Union Group, Inc.

The liquidity of our banking institutions has continued to improve, notwithstanding the conditions existing in the year 1932. The cash position of our banks and trust companies on December 31, 1932 totalled $100,079,745.74 in Cash and U. S. Government Securities against total deposit liabilities of $290,075,462.10. While bettering their liquid position, our banks have at all times continued to render constructive, helpful service to customers and have played an important part in encouraging industry to maintain employment and in rendering distinct assistance and cooperation to their respective communities.

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies necessarily affected our earning power—for liquidity can be maintained only at the expense of profits. For the year 1932, operating earnings of the banks and trust companies in the Group, after all expenses of operation, taxes, depreciation on banking houses and equipment, and losses on securities sold, but before Reserves, were $2,619,443.05. On the same basis and for the same period, the consolidated net operating earnings of the Group Company, banks, trust companies and all other affiliated companies, amounted to $1,316,952.52.

Dividends paid during the year amounted to $375,134.00. Conservative policies made advisable the discontinuance of dividends during the second quarter of 1932. The remaining earnings of $941,818.52 together with recoveries of $1,131,005.93 from items charged off in previous years, plus sums taken from capital funds in an amount of $8,966,932.17, totalling $10,939,756.62, were transferred to Reserves.

Computed on the basis of the aggregate Capital, Surplus and Undivided Profits of the unit banks and trust companies, as reflected by their published statements of December 31, 1932, plus the net worth of the other affiliated companies at market prices of securities on December 31, 1932, the book value of the Group stock amounts to $17.04 per share. This figure does not include total Reserves remaining in the banks and trust companies exceeding $6,700,000, nor does it include a Reserve of $5,000,000 on the books of the Group Company for contingencies not determinable at this time, but which your Management has deemed it prudent to create, in view of the present business situation.

The policy of liquidating securities affiliates which was initiated in 1931 has been continued during 1932 in an orderly manner. During 1932, a difficult period for liquidation, securities carried on the books at $1,712,821.68 were sold with a resultant net loss of only $42,201.91. This liquidation was confined to sales of the least desirable holdings. On December 31, 1932, the aggregate market value of securities owned by these companies was $5,688,797.10.

Drastic economies of operation were continued during the year with satisfactory results. In spite of the fact that total operating income of banks and trust companies decreased 18.32%, the controllable operating expenses (i.e., other than interest on deposits) were reduced 25.41%.

To effect further operating economies, the Grosse Pointe unit, the Guardian Bank of Grosse Pointe, was merged with the Guardian National Bank of Commerce on December 31, 1932.

The banking units of the Guardian Detroit Unit Group, Inc., are located in sixteen (16) communities in the State of Michigan. In a large majority of these communities, the Guardian units are first in size as measured by deposits. In four communities they are second in size. In only one of the smaller communities does our unit rank below second place.

The table on page — presents the aggregate deposits in the communities served and the amount of aggregate deposits held by Guardian units in these communities. It is interesting to note from this table that in three communities the Guardian unit is now the only banking institution.

Officers and Directors of units of the Group as of January 12, 1933, owned over 400,000 shares of group stock, or more than 26% of the total of 1,544,844 shares outstanding. 1,435,978 shares, or 93%, are owned by residents of the State of Michigan. There was a substantial increase in the number of shareholders during the last year. There are now 9,837 shareholders compared with 8,945 on December 31, 1931. Ownership of large holdings of stock remained practically unchanged during the year.

Notwithstanding the exceptionally trying times and their effect upon our banking institutions during the year, our unit banks are entering the new

year prepared to furnish better and more efficient banking service to the communities which they serve.

Perhaps never in the history of banking has more been demanded of Directors, Officers and Staff, than in the past year. It has been an inspiration to note the unselfishness with which our organization has faced its daily problems.

We wish to take this occasion to express to them our appreciation for their zeal, loyalty and cooperation which has been shown.

We also take this opportunity to thank our shareholders for their splendid support during the year 1932, which has resulted in an increased amount of business being directed to units of the Group. Continuance of this confidence during 1933 will stimulate the operating staff to even greater endeavors in the interest of the Stockholders.

The preeminence of the Guardian Detroit Union Group, Inc. as a vital factor in the economic and financial life of Michigan becomes impressive when one considers the outstanding men representing its affiliated institutions as Directors. With these contacts, any economic improvement or further development of Michigan's industries will be directly reflected within our own institution.

Respectfully Submitted.

ERNEST KANZLER,
Chairman of the Board.
ROBERT O. LORD,
President.

COMMITTEE EXHIBIT NO. 35—DECEMBER 20, 1933

GUARDIAN DETROIT UNION GROUP, INCORPORATED

INTRA-GROUP MEMORANDUM

Date JAN. 21, 1931

To The Directors of Guardian Detroit Bank
From Mr. Robert O. Lord, President
Subject Favorable comment from Guardian "Rooters"

On January 2, 1931, there appeared in the Detroit newspapers a brief news item to the effect that the deposits of Guardian Detroit Bank had increased by $9,500,000 during the past three months to a new peak of $124,096,976.65. Clippings of this news item were sent to all bankers with whom Guardian maintains banking relationships—with the additional information that all of the twenty-three banks and trust companies comprising Guardian Detroit Union Group, Inc., showed on December 31, 1930, "Bills Payable—None".

Extracts from letters written by these bankers—commenting upon the above—are reproduced below as being of possible interest to you.

[National City Bank of New York, N.Y.]

I appreciate your letter of January 2nd. You have made a good showing.—Gordon Rentschler, President.

[Bankers Trust Company, New York City]

There isn't any good luck which you and the rest of your crowd could have that I wouldn't rejoice in.—Seward Prosser, Chairman.

[The Chase National Bank, New York City]

You have every reason to be proud of the Guardian Detroit Bank, as well as the Group.—Richard R. Hunter, Vice Pres.

[The First National Bank, Chicago]

You and your associates are to be congratulated on the excellent condition of the entire group of banks.—Melvin A. Traylor, President.

[Continental Illinois Bank and Trust Company, Chicago]

The substantial increase in deposits is indeed an item in which you are fully justified in taking a great deal of pride.—J. R. Washburn, Vice Pres.

[Harris Trust & Savings Bank, Chicago]

It is a record of accomplishment of which you may well be proud and I hope the year 1931 will be a banner year for you all.—C. G. Fisher, Vice President.

[The Union Trust Company of Pittsburgh]

You are great bankers up there.—H. C. McEldowney, President

[The Bank of America, New York]

Congratulations! Hope you can keep it up.—Edward C. Delafield, Pres.

[Chemical Bank & Trust Company, New York]

I am pleased to know that your institution is in such liquid position and want you to know that you have our every good wish for continued success.—Percy H. Johnson, President

[Mellon National Bank, Pittsburgh]

I wish to take this opportunity to congratulate you on the splendid showing during the past year.—Richard K. Mellon, Vice Pres.

[The First National Bank of Boston]

Congratulations on the increase in your deposits. I hope you are able to make a little money as well.—Charles F. Mills, Vice Pres.

[The National Shawmut Bank of Boston]

Let me express my congratulations and those of my associates here on the result that has been accomplished, and the hope that at the end of 1931 your deposits will be higher and your profit and loss account all that you desire.—W. F. Augustine, Vice Pres.

[Foreman-State National Bank, Chicago]

Heartiest congratulations!—Walter W. Head, President

[Bankers Trust Company, New York]

I don't want to miss the opportunity to congratulate you on the fine liquid showing which it makes. More power to you and yours.—Frederick S. Bale, Vice Pres.

[Irving Trust Company, New York]

We congratulate your institution, and especially so for the liquidity indicated by your statement that the several banks comprising your Group were completely out of debt at the close of 1930. If all the banks of the country pursued a similar policy, there would be a far greater stability in banking and less unsettlement during unusual periods.—William Feick, Vice Pres.

[The Union Trust Company, Cleveland]

I am pleased to know that you showed such a nice increase over the date of the last call. People are just so touchy at the present time and there are so many rumors as to all of the banks in the country that every banker is pleased to show increased deposits and also an increase in cash position.—J. R. Kraus, Vice Pres.

[Canal Bank & Trust Company, New Orleans]

The growth of your wonderful institution is simply marvelous, and commented on very much by the bankers and business men throughout the south.—William P. O'Neal, Vice Pres.

[Bankers Trust Company, New York City]

I am very much pleased to learn that the Guardian Detroit Bank is going ahead in such a gratifying way.—F. W. Shibley, Vice Pres.

[Bank of New York and Trust Company, New York]

Thank you for calling my attention to the handsome increase in deposits of your good bank. Glad to hear of it, and hope that your progress continues uninterruptedly. You have our best wishes, as usual.—L. F. Kiesewetter, Vice Pres.

[The Bank of America, New York]

If I may be permitted to use a superlative, the showing of all the twenty-three banks and trust companies is little short of miraculous, considering all the uncertainties and disturbances of the day.—Clare Walker Banta, Vice Pres.

[Trans-America Corporation, New York City]

I have reason to feel proud of the situation described in the clipping from the Free Press of January 2. More power to you.—Ralph Hayes, Vice Pr.

[The New York Trust Company, New York]

I shall take pleasure in passing this information around to my associates, all of which will be helpful in permitting us to assist in creating the atmosphere about your bank which it deserves.—J. Murray Mitchell, Vice Pres.

[Bank of Manhattan Trust Company, New York]

I have read your letter and the clipping with a great deal of interest and want to congratulate you on the accomplishment of the Guardian Detroit Union Group, Inc.—J. Stewart Baker, President.

[Security-First National Bank of Los Angeles]

I congratulate your fine institution and trust that the good work may continue.—R. B. Hardacre, Vice Pres.

[First National Bank of Minneapolis, Minn]

Congratulations on the fine improvement in the Group.—L. E. Wakefield, President.

[The Anglo & London Paris National Bank, San Francisco]

You and your associates are to be congratulated on the splendid showing made.—H. Fleishhacker, President.

[Bank of Manhattan Trust Company, New York]

The facts which they mention are highly creditable to your bank. I congratulate you.—Thomas W. Bowers, Vice Pres.

[Monongahela National Bank of Pittsburgh]

An institution of the sort of yours is entitled to this patronage and I hope as time goes on that your good ship will take on additional cargo.—George E. Benson, President

[Citizens National Trust & Savings Bank, Los Angeles]

You are to be congratulated on the splendid showing made in your December 31st statement, quite aside from the small part we played in it.—H. D. Ivey, President

[Union Trust Company, Washington, D.C.]

What a wonderful record the Guardian Bank has made!—Geo. E. Fleming, V.P.

[The Citizens and Southern National Bank, Atlanta, Ga.]

It is a splendid thing for two fine banks like yours and ours to do business with each other.—Alva G. Maxwell, Vice Pres.

[Franklin Trust Company of Philadelphia]

This is a mighty fine showing and I heartily congratulate you and your associates.—C. Addison Harris, Jr., Pres.

[Citizens Union National Bank, Louisville, Ky.]

You have every reason to feel proud of your accomplishment. It is not at all surprising to me that you have gained in business whereas the general movement has been downward.—John R. Downing, President

[The Union & New Haven Trust Company, New Haven, Conn.]

Whether conditions are good or bad you seem to keep on growing.—Ned Gaillard, Vice Pres.

[Springfield Chapin National Bank & Trust Co., Springfield, Mass.]

I heartily congratulate you on such a splendid showing in these troublesome times. It would seem definitely to indicate the confidence of your people in the Guardian Detroit Union Group.—W. V. Camp, President

[Bankers Trust Company, Little Rock, Ark.]

Certainly in the times which we have had, you must feel very proud of the increased business of your bank, together with the liquid position which it enjoys.—F. W. Niemeyer, President

[Commonwealth Trust Company, Harrisburg, Penn.]

You have just pride in the impressive gain which your Bank has shown in its business during the last year. I hope that the close of 1931 will show a still higher achievement.—W. M. Ogelsby, President

[The First National Bank of Houston]

I think, circumstances considered, that this is a remarkable showing, please accept my congratulations.—F. M. Law, President

[Frost National Bank, San Antonio, Texas.]

What you have done is most remarkable and you are to be congratulated.—J. H. Frost, President.

[The Merchants Bank & Trust Company, Jackson, Miss.]

I want to congratulate you upon the wonderful showing of your banks and the conditions that prevail around Detroit generally. I was in Detroit in December 1929 and it was about the bluest place that I found. In December 1930 it was just the reverse, it being the brightest spot on my recent trip.—J. M. Hartfield, President.

[The First National Bank & Trust Company of Fargo, N. Dak.]

You are surely building up a tremendous business. The figures representing your deposits are astounding and almost beyond the comprehension of us fellows out here in the sticks. More power to you all!—F. A. Irish, Vice Pres.

[The Liberty National Bank, Oklahoma City, Okla.]

The newspaper clipping is indeed interesting, taking into consideration the sentiment that obtains in other parts of the country. As is always the case, it depends upon the management.—Ben Mills, President.

[State-Planters Bank & Trust Company, Richmond, Va.]

In these days when most banks are satisfied to have their deposits show a very little increase, or even to remain stagnant, it is indeed most gratifying to hear of such a splendid growth.—Julien H. Hill, President.

[Spokane and Eastern Trust Company, Spokane, Wash.]

This is certainly going some, and we extend our hearty congratulations.—R. L. Rutter, President.

* * * * * * *

Similar comment from large commercial customers appear below:

[The Pennsylvania Railroad Company, Philadelphia, Penna.]

Thanks for your favor of the 2nd instant with its comforting and interesting information. May the Guardian continue to prosper and may the Pennsylvania be in a position to contribute to a greater extent to that success.—George H. Pabst, Jr., Treasurer.

[Armour and Company, Chicago]

I thank you for sending me a copy of your statement as of December 31st, and I congratulate you and your associates on your exceedingly liquid condition. It certainly must be gratifying to you to be able to make a statement without any "Bills Payable", particularly at this time when practically every bank statement we look at shows such an item among the bank's liabilities.—Philip L. Reed, Treasurer.

[The Kingston Products Corporation, Indiana]

The statement of the Guardian Detroit Bank as of December 31, 1930, is indicative of such splendid condition that you are entitled to the highest compliment. The liquidity of your institution, as indicated by your statement, compares most favorably with that of the finest banking institutions in the country.—J. P. Johnson, President.

[Chrysler Corporation, Detroit]

You certainly put out a very respectable statement on December 31, 1930, and both you and Detroit are to be congratulated on the showing you make. With over $47,000,000 in cash and United States bond and certificates on hand, you could take almost any kind of a licking on the chin and come back for more.—B. E. Hutchinson, Vice Pres.

[The Cudahy Packing Co. Chicago]

It certainly is like a ray of sunshine to look over a bank statement in as liquid a position as your bank.—J. E. Wagner, Treas.

[John Hancock Life Insurance Co. Boston, Mass.]

We are glad to be allied with so strong an institution and I hope that we shall continue to be a worthwhile client.—Walton L. Crocker, President.

[The American Brass Company, Waterbury, Conn.]

We congratulate you and your Directors in being able to make such a satisfactory statement, and hope that the coming year will prove to be a very profitable one for your bank.—John A. Coe, President.

[Merrimack Manufacturing Company, Boston]

We wish we could have contributed more to your business during the past year, but our Detroit customers did not appear to have been in a way of giving us much to do. We hope for better success with them in 1931. Meanwhile, we wish to congratulate you on your success, which we feel sure will continue to grow with the future as it has in the past.—Ward Thoron, Treasurer.

[General Motors Corporation, Detroit]

The splendid ratios and liquid position reflected in this statement are in keeping with your policies, but they are remarkably fine under present conditions.—M. L. Prentis, Treasurer.

[Theodore Gary and Company, Chicago]

I congratulate you on the wonderful work you and your associates have done in building up so fine an institution in so short a time.—E. C. Blomeuer, Ex. Vice Pres.

[The Newton Steel Company, Youngstown, Ohio]

Our account with you has not been as large as we would like to have it, still it is our hope that in the future we can bring it up considerable, especially as the automobile industry picks up and we are in position to get our Michigan plant under good operations.—E. F. Clark, President.

[Distaphone Sales Corporation, New York City]

Hearty congratulations on the position of the Guardian Detroit Bank, in view of the present day's business situation which has perhaps hit Detroit and environs harder than most any other point. I think the standing of your Bank is astonishingly good.—L. C. Stowell, President.

[The Murray Corporation, Detroit]

Allow me to congratulate you on the excellent condition of your bank. May we hope that our pleasant relations in the past will continue indefinitely in the future.—C. David Widman, Sec. & Treas.

[The Chicago and Alton Railroad Company, Chicago]

I hope this splendid business condition will remain with you and that you will even grow larger and stronger until yours shall be among the very leaders of the central western banking institutions, all for which you have my sincere hopes and good wishes.—William G. Bierd, Receiver

[Bethlehem Steel Company, Bethlehem, Penna.]

The newspaper clipping you attached to your letter, as well as your P.S., is very interesting and you and your associates can feel justly proud that, under present conditions, you are in the position of showing no Bills Payable on the December 31st statement not alone for your Bank but for your associated banks.—J. P. Bender, Treasurer

and, lastly, from our own Commissioner of Banking:

[Michigan State Banking Department, Lansing]

I have your letter enclosing a newspaper clipping and want to congratulate you upon the condition of the institutions in your group. I am certainly pleased to hear you say that not any of the twenty-three banks and trust companies comprising your group owe the Federal Reserve Bank or any other bank a single penny. It is certainly a very healthy condition and a very comfortable one to be in at the present time.—R. E. Reichert, Commissioner

STOCK EXCHANGE PRACTICES

THURSDAY, DECEMBER 21, 1933

United States Senate,
Subcommittee of the Committee
on Banking and Currency,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The Chairman. The subcommittee will come to order, please. You may proceed, Mr. Pecora.

TESTIMONY OF ROBERT O. LORD, DETROIT, MICH.—Resumed

Mr. Pecora. Mr. Lord——

Mr. Lord. Mr. Pecora, may I speak for a moment?

Mr. Pecora. Yes.

Mr. Lord. I should like to correct an error in my testimony of yesterday afternoon. You asked me this question——

Mr. Pecora (interposing). What page of the transcript are you reading from?

Mr. Lord. Page 270.

Mr. Pecora. All right.

Mr. Lord. You asked me this question:

> Mr. Pecora. In other words, was not this one of the reasons, to enable the unit banks to make reports which would show no bills payable, despite the fact that there were actually bills payable?

And my answer was "Yes." That answer is incorrect. My answer is unqualifiedly no. To the best of my knowledge and belief, based upon official statements furnished to me of the group banks, which statements I had no doubt about, there were no bills payable on December 31, 1930.

Mr. Pecora. The answer as it appears in the stenographic transcript is the answer you made, though, isn't it?

Mr. Lord. That is the answer I made.

Mr. Pecora. You are not impeaching the accuracy of the stenographic transcript, are you?

Mr. Lord. I am not impeaching the answer in the transcript, but I did not understand your question fully, and now desire to correct the error in my testimony.

Mr. PECORA. Now, so long as you have corrected that answer, or rather have changed it——

Mr. LORD. Corrected it.

Mr. PECORA. What was that?

Mr. LORD. Corrected it.

Mr. PECORA. You are not correcting the answer as it appears in the stenographic transcript. The answer shown there is the one you gave, as I understand your testimony here now. You are changing it, aren't you?

Mr. LORD. My answer is changed; yes. I am correcting my testimony.

Mr. PECORA. You mean that you are changing your testimony. There is a difference between the two words "correcting" and "changing."

Mr. LORD. Well, I gave an incorrect answer, not understanding the question. I desire now to give the correct answer.

Senator COUZENS. Let us have the question repeated so we may understand how intelligent the witness is in understanding questions propounded to him.

Mr. PECORA. The question appears on page 270 of the stenographic transcript of yesterday's session, as follows:

> In other words, was not this one of the reasons, to enable the unit banks to make reports which would show no bills payable, despite the fact that there were actually bills payable?

And then the answer to that question given by Mr. Lord on yesterday was "Yes." And he continued with "Might I interject something at this point?"

Now that is what we have before us.

Mr. LORD. And I want to change that answer of "yes" to one of "no."

Mr. PECORA. You want to change that answer so that it will be "no."

Mr. LORD. I want to answer it now correctly, "no."

Mr. PECORA. Now, Mr. Lord, did you examine this stenographic transcript since you testified before the subcommittee on yesterday?

Mr. LORD. As I left the stand yesterday afternoon one of my associates asked me why I had answered that question incorrectly. I stated to him that I did not answer it incorrectly if I understood the question. There was some discussion about it, and then I sent for the transcript and saw that I had answered the question incorrectly.

Mr. PECORA. Well, did you read all the testimony you gave on yesterday on this point?

Mr. LORD. Merely on this particular point.

Mr. PECORA. For instance, did you read the testimony you gave on this point as it appears on page 269 of the stenographic transcript?

Mr. LORD. I read page 269, yes. To what are you now referring?

Mr. PECORA. The testimony that I have in mind appears on page 269 of the stenographic transcript as follows:

> Question. At any of those times did any of those unit banks have bills payable which were taken care of temporarily in some fashion so as to make it unnecessary to show those bills payable in published reports of condition?

And the answer was:

Answer. Yes, sir.

Question. How was that done, Mr. Lord?

Answer. It was done usually by either the Guardian Detroit Bank buying some of their assets and supplying them with cash, or depositing funds in the form of C.D.'s.

Mr. LORD. I might add to that, that the Guardian Detroit Bank carried accounts in some of the units; in additions to C.D.'s, it was carried in the form of a regular checking account.

Mr. PECORA. Have you any desire to change any of the testimony that you gave on yesterday as it now appears on page 269 of the stenographic transcript?

Mr. LORD. None except the addition that in some cases it was not in the form of C.D.'s but in the form of a regular account on the books of the bank.

Senator ADAMS. Do I understand, Mr. Lord—and I was not here yesterday when this testimony was given—that the Group organization, or an organization of some kind, had loaned money to the local bank, evidenced by a bill payable, and that they substituted for the bill payable a C.D., took a C.D. in place of it?

Mr. LORD. They deposited funds to the credit of the local bank, and that bank used those funds to pay its bills payable.

Senator ADAMS. There was no exchange, then, of the bill payable itself for a C.D.?

Mr. LORD. No. I would say they were two separate transactions.

Mr. PECORA. That was invariably done at about the times when banks expected a call from the Comptroller of the Currency for condition statements, wasn't it?

Mr. LORD. I would not say invariably. From time to time we, throughout the year, carried funds in some of the out-State banks. Some of those funds remained there for many months. I would say it was the exception rather than the rule.

Mr. PECORA. What did you say?

Mr. LORD. I would say that the placing of funds for the purpose of local banks liquidating their bills payable was the exception rather than the rule.

Mr. PECORA. Well, now, on yesterday afternoon you gave considerable testimony tending to create the impression, or at least it did in my mind, that this was the universal custom among banks. Do you recall that testimony? You gave considerable testimony along that line yesterday.

Mr. LORD. My recollection is that when I spoke of—or you used the words "universal custom." I used, as I recall, different words, to the effect that it was the desire and the effort of banks to clean up their bills payable on or about the statement date period.

Mr. PECORA. They cleaned them up by making bona fide payments of the bills payable?

Mr. LORD. Yes, sir.

Mr. PECORA. In all instances?

Mr. LORD. I think so. I would say bona fide if they had the funds with which to pay them, on deposit.

Mr. PECORA. You are quite sure of that, are you?

Mr. LORD. I would say so.

Mr. PECORA. In all those instances those bills payable were actually paid?

Mr. LORD. So far as I know, Mr. Pecora.

Mr. PECORA. You sought to keep yourself currently informed as to what was going on in the unit banks, did you?

Mr. LORD. Yes. But I had nothing to do with the mechanics of the bookkeeping and the making of entries.

Mr. PECORA. Who had to do with those mechanics, principally?

Mr. LORD. I would say the teller handling——

Mr. PECORA (interrupting). I mean in behalf of the group.

Mr. LORD. I do not understand your question, because it was not a deposit on the group's books.

Mr. PECORA. Wasn't it the group's policy to have those unit banks show no bills payable?

Mr. LORD. So far as possible; yes, sir.

Mr. PECORA. And who handled the mechanics by which that was made possible?

Mr. LORD. I would say that was handled by several different officers, who handled the accounts of banks and bankers.

Mr. PECORA. Cannot you give us the names of the individuals who handled the mechanics of that thing?

Mr. LORD. At one period in the bank's history Colonel Walsh handled banks and bankers. At a later date Mr. D. F. Valley did it.

Mr. PECORA. What was Colonel Walsh's position or office in the group when he handled those mechanics?

Mr. LORD. His office in the group was that of executive vice president. And the bank at one period—well, he was the executive vice president of the bank at one period, and at a later date he was vice president, when he was giving the most of his time to the group.

Mr. PECORA. What was Mr. Valley's office or position in the group when he handled the mechanics?

Mr. LORD. He was not an officer of the group. Mr. Valley was vice president of the bank.

Mr. PECORA. Of which bank?

Mr. LORD. Of the Guardian National Bank of Commerce.

Mr. PECORA. As vice president of the Guardian National Bank did he direct or handle mechanics which enabled all the other unit banks in the group to avoid reporting bills payable?

Mr. LORD. He might have so far as it related to deposits of the Guardian National Bank of Commerce in any of those units.

Mr. PECORA. Can you describe to the subcommittee the details of those mechanics?

Mr. LORD. If you could cite some instance I could probably describe it better.

Mr. PECORA. Describe the general mechanics, the details of that matter.

Mr. LORD. All the unit banks carried correspondent accounts in Detroit with the Guardian National Bank of Commerce. The Guardian National Bank of Commerce frequently and at different times during the year carried accounts with the other banks or carried C. D.'s with the other banks. A credit would be placed upon our books for the account of the out-State bank, or the out-State bank would show or would use for a deposit a certificate of deposit. That gave that bank the funds with which to liquidate bills payable.

Senator ADAMS. Mr. Lord, were bills payable due to the Guardian Bank in Detroit? What I mean is, if any of those out-state banks had occasion to borrow money did they invariably borrow it from the parent bank?

Mr. LORD. In some cases they borrowed it from the parent bank, and in some cases they borrowed it from the Federal Reserve bank. Later on in some cases they borrowed from the R.F.C.

Senator ADAMS. And in each of those cases a bill payable would be secured by collateral?

Mr. LORD. Yes, sir. We never loaned to any unit bank without collateral, to my knowledge.

Senator ADAMS. Did you exact collateral when you made a deposit?

Mr. LORD. No. sir; we did not——

Senator ADAMS (continuing). Which was used to pay a bill payable?

Mr. LORD. Not to my knowledge.

Senator ADAMS. The fact of the matter would be that the unit bank got back its collateral?

Mr. LORD. Yes, or if it was held in safe-keeping for their account it was done with no claim that we had on it.

The CHAIRMAN. The statement of a unit bank would show bills receivable as well as bills payable, in the proper course, wouldn't it?

Mr. LORD. If a unit bank would borrow from the Guardian National Bank of Commerce the unit bank would show bills payable and the Guardian National Bank of Commerce would show that as bills receivable in its loans and discounts.

The CHAIRMAN. Yes; but the statement of the unit bank, the form of the statement is such, that it would show bills payable?

Mr. LORD. If they owed money it would certainly show bills payable.

The CHAIRMAN. Well, I am speaking now about the form.

Mr. LORD. Yes, sir.

The CHAIRMAN. And it also would show bills receivable.

Mr. LORD. Why?

The CHAIRMAN. The form would show that, wouldn't it? In the statement of the bank they would have to give bills receivable and the cash owed to their other banks.

Mr. LORD. It would show cash as to——

The CHAIRMAN (interposing). I mean it would show in their statement.

Mr. LORD. I do not understand your question, Senator Fletcher.

The CHAIRMAN. A bank makes a statement showing bills payable. In that same statement it should show bills receivable, amounts due from other banks.

Mr. LORD. Yes; indeed it would, if there were any.

The CHAIRMAN. If there were any, of course.

Mr. LORD. Yes.

The CHAIRMAN. Now, if a unit bank had on deposit with you certain funds with which it intended to pay bills payable and all that sort of thing, their statement would show that that amount of money was due it, under the head of bills payable, or cash due from other banks, or whatever heading they put it under.

Mr LORD. Yes, if I understand your question.

The CHAIRMAN. So that if a bank statement showed bills payable and also showed an amount of bills receivable, one would offest the other, and what harm could come to the bank that showed bills payable and also bills receivable? And if it showed no bills payable the amount receivable would have to be less than it would show otherwise.

Mr. LORD. Your question is not quite clear to me, Senator Fletcher.

The CHAIRMAN. In other words, a bank has certain bills payable that you do not want to appear on their statement. At the same time there were bills payable the bank had with you on deposit a sufficient amount to cover its bills payable. Is that it?

Mr. LORD. Yes; and they charge that deposit and pay their bills payable, if I understand your question.

Senator ADAMS. May I just follow my question one step further, Mr. Lord?

Mr. LORD. Yes, Senator Adams.

Senator ADAMS. The process that you outline was that there was a bill payable from one of the unit banks. The parent bank made a deposit with the——

Mr. LORD (interposing). With one of the——

Senator ADAMS (continuing). With the unit bank?

Mr. LORD. That is correct.

Senator ADAMS. And that deposit did what?

Mr. LORD. Provided, then, funds with which to liquidate bills payable.

Senator ADAMS. The collateral was then released. What was done with the bill payable? Was it subsequently restored?

Mr. LORD. It might have been, and it might have been a few days later or a few months later, depending upon the cash resources of the bank. It may have needed money for other purposes.

Senator ADAMS. Here was a deposit with a unit bank by the parent bank. The effect of that was that the parent bank secured the payment of its deposit account by a bill payable secured by collateral. That is a rather preferential transaction when you reach that point, isn't it?

Mr. LORD. I wouldn't think so, because that unit bank had the right to borrow its funds elsewhere and take care of the withdrawal of that deposit. They did not have to borrow from the parent bank. They could borrow from the Federal Reserve Bank or any place else they wanted.

Senator ADAMS. If the parent bank has a deposit with a unit bank, and the parent bank wants to withdraw its deposit, and the unit bank gives them collateral which is perfectly good and a bill payable, they have rather improved their position as compared with other depositors, haven't they?

Mr. LORD. No. They occupy the same position as any other depositor.

Senator ADAMS. No; they thereby become a secured depositor.

Mr. LORD. No. Supposing the Guardian National Bank of Commerce had an account, say, of $250,000 in a unit bank, and those funds had been used to liquidate all or a portion of bills——

Senator ADAMS (interposing). But the deposit stands on the books.

Mr. LORD (continuing). And supposing that bank had an account from somebody else and they wanted to withdraw their money. The Guardian National Bank stood in the same position. The mere fact that they were willing to reloan to that unit bank funds with which to provide for the payment of that deposit, puts the Guardian National Bank of Commerce in the same position as a depositor, as every other depositor. They had no claim on the deposit when they had no——

Senator ADAMS (interposing). But when they make a bank deposit they are given collateral in place of an unsecured claim that the ordinary depositor holds.

Mr. LORD. It may be that the bank had the money with which to pay. If they did not have the funds they might have to come to the Guardian National Bank of Commerce and say: We need $200,000 or $250,000. Will you loan it to us on collateral. Those are two entirely separate and distinct transactions.

Senator ADAMS. But in doing that it was avoiding any hazard.

Mr. LORD. No. If the bank had closed they would occupy the same position as any other depositor would. The mere fact that they might hold for safe-keeping any collateral on a prior loan did not change that situation.

Senator ADAMS. If a deposit is made, and it has been applied to bills payable, then when the parent bank wants to withdraw its deposit it gets from the unit bank a note in payment of the deposit and gets collateral to secure such note.

Mr. LORD. If the unit bank requires a loan to pay that deposit.

Senator ADAMS. Well, we are assuming there will be no note unless they require it. But the mere fact that they require it would indicate preferential treatment in the case of the parent bank, wouldn't it?

Mr. LORD. I do not consider that there was any preferential treatment.

Senator COUZENS. Let me use this illustration: Assuming a unit bank borrowed $250,000 from you and gave you a note and security. Later on you wanted that unit bank to be relieved of showing bills payable. So you put $250,000 on deposit in the unit bank and cancel the note and take the security out of your bank, or hold it for safe keeping. In what respect is your Guardian National Bank of Commerce any better off by that procedure than by holding the security with the note?

Mr. LORD. It made no difference to the Guardian National Bank of Commerce.

Senator COUZENS. If you are willing to deposit $250,000 in a unit bank so that they may avoid showing bills payable, why couldn't you have done that in the first instance instead of taking a note with security?

Mr. LORD. I think we did it in many cases. I think you will find that——

Senator COUZENS (interposing). I am not going into many cases. I am talking about the kind of loans you have been discussing. You said a unit bank might borrow $250,000 from you and put up security. In that case it was a bill payable and you were secured.

Mr. LORD. Yes, sir.

Senator COUZENS. Against an ordinary depositor.

Mr. LORD. Yes, sir.

Senator COUZENS. And later on you deposit $250,000 in that unit bank, on a C.D., for example. And they used that $250,000 to cancel the note that you had.

Mr. LORD. Yes, sir.

Senator COUZENS. And you surrendered the collateral. Why did you not do that in the first instance instead of taking a note as collateral?

Mr. LORD. We might not have had at that time surplus funds with which to do it.

Senator COUZENS. But you did not need security then, that being so, did you? But you did take security from your unit bank.

Mr. LORD. We took security always when we made a bank a loan.

Senator COUZENS. What is the difference between making them a loan and depositing $250,000, except that you prefer yourself?

Mr. LORD. Well, that would apply to any bank making loans to other banks.

Senator COUZENS. I understand that that is so, but I am not asking you questions on that point. I am talking about your relations with your own units. You demand a note and security in one case, and in another case you put your money in a unit bank and stand the same chance as any other depositor.

Mr. LORD. That is true.

Mr. PECORA. Mr. Lord, it was the rule for the Comptroller of the Currency three times a year at least to call on banks for a report of their condition as of a prescribed date, was it not?

Mr. LORD. I believe so, sir.

Mr. PECORA. And at about what times or periods during the year would those three times occur?

Mr. LORD. I think I might say it is usually four times a year.

Mr. PECORA. But three times is required at least?

Mr. LORD. I believe so.

Mr. PECORA. At about what time do those calls come?

Mr. LORD. Usually sometime about the 1st of March or the latter part of April; and then between the 1st of June and along some time in July; and always, if my recollection is correct, the last day of the year.

Mr. PECORA. That is by December 31?

Mr. LORD. Or December 30; depending on whether the 31st is a business day.

Mr. PECORA. And sometimes where a fourth call for a statement of condition was made it would occur around in September, wouldn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. So that bank executives could fairly approximate the time when they would be called upon for a statement of condition?

Mr. LORD. Well, they could know within a period of from 30 to 45 days. But I have known cases where bank calls would run, I believe, over 30 days of the ordinary time.

Mr. PECORA. Well, was it the settled policy of the group to so adjust things among the various unit banks in the group that when those calls came from the Comptroller of the Currency for a state-

ment of financial condition, as of a date given by the Comptroller, bills payable would have been so taken care of, in the fashion that you have described, as to make it unnecessary for those unit banks to show, in their reports in answer to the call, any bills payable?

Mr. LORD. Mr. Pecora, it was the policy to have as small an amount of bills payable at all times as possible. And it was the policy to make as good a showing as we properly could at the time of statement dates. Does that answer your question?

Mr. PECORA. In part. Did you especially strive to create a situation by reason of any policy adopted by the group and its unit banks, to avoid showing any bills payable on any of those reports?

Mr. LORD. Wherever it could be properly done; yes, sir.

Mr. PECORA. Take, for instance, where one of the unit banks, like the National Bank of Ionia, owed some money to the parent bank, which is the Guardian National Bank of Commerce, and the time came around when it was reasonably to be expected that a call would be issued by the Comptroller of the Currency for a statement of financial condition, we will say as of September 15, in any one year: As a rule what were the mechanics employed to enable the National Bank of Ionia to avoid showing among its bills payable in the report a bill that it owed the parent bank?

Mr. LORD. Mr. Pecora, I do not recall the specific method of handling the National Bank of Ionia.

Mr. PECORA. Well, I am merely using that bank as an example.

Mr. LORD. My recollection is that in the case of the National Bank of Ionia the Guardian National Bank of Commerce, or the Group Co., and I do not recall which, carried a deposit with that bank for a great many months to help it out during the period directly after the failure of the competing bank in that town. But I have not the figures in front of me and so cannot answer your question specifically.

Mr. PECORA. I am simply asking you to take a supposititious case and describe to the committee the mechanics.

Mr. LORD. I cannot take that case, because I do not know how it was handled. I do know that there was a deposit carried with Ionia for a great many months.

Mr. PECORA. Will you be good enough to look at this document which I show you, which purports to be a photostatic reproduction of a letter addressed to Mr. Alexander Robertson, vice president of the National Bank of Ionia, Mich., dated September 17, 1931, purporting to be signed by Mr. James L. Walsh, executive vice president of the group? Look at it and tell me if you recognize it to be a true and correct copy of such a letter sent by Colonel Walsh to Mr. Robertson.

Mr. LORD. I never saw it before, but I have no question as to its being a correct copy.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Sept. 17, 1931, Walsh to Robertson, was received in evidence, marked "Committee's Exhibit No. 37", Dec. 21, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter has been marked "Committee's Exhibit No. 37, in evidence", and reads as follows. It is on the letterhead of the Guardian Detroit Bank, dated September 17, 1931 [reading]:

Mr. ALEXANDER ROBERTSON,
Vice President, National Bank of Ionia,
Ionia, Mich.

DEAR ALEX: From now until after next call date will you please wire me promptly each morning giving me your deposits in thousands of dollars, and also your bills payable in thousands of dollars. I think there will be no need to mention either the word "deposit" or "bills payable" in the message, but merely use two sets of figures, with the word "stop" between, as follows:

"James L. Walsh, vice president, Guardian Detroit Bank, Detroit, Mich. $7,770,000. Stop. $100,000. Alexander Robertson."

Please do not fail to wire me just as early in the morning as possible, and certainly not later than 10 a.m. Even if you do not need any additional deposits to offset bills payable, it is extremely important that I be informed accordingly, as I may be holding up several other moves awaiting to hear from you.

Cordially yours.

Signed by Mr. Walsh.

Does the reading of that letter, Mr. Lord, serve to refresh your recollection in any way concerning the precise mechanics or means that were employed to offset bills payable by deposits so that it would not be necessary for a unit bank that had bills payable in favor of the parent bank to report the bills payable?

Mr. LORD. Mr. Pecora, let us not use the words "parent bank" because the Guardian Detroit Bank occupied the same position as any unit bank.

Mr. PECORA. Then eliminate that characterization "parent bank." Say any other bank in the group.

Mr. LORD. That does not change in any way my recollection, as I described to you, how these deposits and payment of bills payable were made before. I never saw the letter before, and never had anything to do with the transaction, so that it does not in any way enlighten me.

Mr. PECORA. Did you know that it was the practice for Colonel Walsh, who, as you said before, was one of the officers of the group who handled the mechanics of this thing, to send out letters in the form of the one I have just read to you?

Mr. LORD. I did not, sir.

Mr. PECORA. Then does not this letter serve to enlighten you in any way concerning the methods that were employed to offset bills payable by unit banks?

Mr. LORD. No.

Mr. PECORA. You mean that this letter is meaningless to you?

Mr. LORD. No; it is not meaningless. It serves to show me how Colonel Walsh was keeping in constant touch with the Ionia Bank, to know what its condition was each day as to deposits and bills payable.

Mr. PECORA. He was not doing that each day throughout the year, was he?

Mr. LORD. Apparently not, from that letter.

Mr. PECORA. From this letter, he was apparently doing that at about the period when it was to be expected that a call would be made for a report of condition by the Comptroller of the Currency.

Mr. LORD. I would assume so, from the wording of the letter.

Mr. PECORA. And it was done specifically to enable those things to be done which were necessary for the unit bank to offset its bills payable.

Mr. LORD. To clean up its bills payable.

Mr. PECORA. So that it would not have to show bills payable in any report of condition made pursuant to a call from the Comptroller.

Mr. LORD. So that it would not have any bills payable at the time of the report.

Senator ADAMS. The depositor in the unit bank, assuming the unit bank was not in good condition, would be better off in a situation where a deposit was made than where they had the bills payable secured by collateral, would he not?

Mr. LORD. Oh, yes; because the depositors would all be general creditors rather than loan creditors with specific collateral.

Senator ADAMS. The disadvantage of that transaction was with the bank making the deposit in substitution for the bill payable.

Mr. LORD. I would say so, Senator.

Mr. PECORA. I show you what purports to be a photostatic copy of another letter, addressed by Mr. Walsh to Mr. Frank M. Brandon, president of the City National Bank & Trust Company of Niles, Mich., also dated September 17, 1931. Look at it and tell me if you recognize it as a true and correct copy of such letter.

Mr. LORD. I never saw the letter, but I assume it is a correct copy, and will accept it as such.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Sept. 17, 1931, Walsh to Brandon, was received in evidence, marked "Committee's Exhibit No. 38", Dec. 21, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter just received in evidence as Committee's Exhibit No. 38, of this date, is written on the letterhead of the Guardian Detroit Bank, and is dated September 17, 1931. It is addressed to Mr. Frank M. Brandon, president of the City National Bank & Trust Co. of Niles, Mich., and reads as follows [reading]:

> DEAR FRANK: From now until after next call date will you please wire me promptly each morning, giving me your deposits in thousands of dollars and also your bills payable in thousands of dollars. I think there will be no need to mention either the word "deposits" or "bills payable" in the message, but merely use two sets of figures with the word "stop" between, as follows:
>
> "James L. Walsh, vice president, Guardian Detroit Bank, Detroit, Mich. $7,770,000. Stop. $100,000. Alexander Robertson."
>
> Please do not fail to wire me just as early in the morning as possible, and certainly not later than 10 a.m. Even if you do not need any additional deposits to offset bills payable, it is extremely important that I be informed accordingly, as I may be holding up several other moves awaiting to hear from you.
>
> Cordially yours.

I observe that the phraseology of this letter is identical with the phraseology of the letter just offered in evidence prior to this one, Exhibit No. 37, with the exception that Exhibit No. 37 is addressed to Mr. Robertson, of the Ionia bank, and this one is addressed to Mr. Brandon, of the City National Bank & Trust Co. of Niles. That indicates that a sort of form letter was used as part of the mechanics in this process, does it not?

Mr. LORD. I would not say that two similar letters would indicate a form letter, Mr. Pecora. I would say that those two situations were evidently handled in the same manner.

Mr. PECORA. You recall the first day you testified here, I showed you several different letters addressed by you to the executive heads of different unit banks with regard to dividend declarations by the unit banks, and those letters were all in the same phraseology, and you declined to acknowledge that in that case any particular form of letter was used. Do you think that in this case here the use of the identical language in these two letters was also an accident, as you called it the other day?

Mr. LORD. No; I do not. I think in those two cases they used similar letters. If you care to call it a form letter I have no objection.

Mr. PECORA. Do you object to calling it a form letter?

Mr. LORD. No; I do not have any objection.

Mr. PECORA. I understood that you did.

Mr. LORD. No.

Mr. PECORA. Is it not apparent to you, from the phraseology of these letters, Exhibits Nos. 37 and 38, that these letters were resorted to for a specific purpose?

Mr. LORD. For the purpose of keeping in close contact with the bank, to know from day to day, at that period, what the condition of the bank's deposits and bills payable was.

Mr. PECORA. And that information was sought by Colonel Walsh from the executive heads of unit banks for a period of time terminating in each instance after the next call date.

Mr. LORD. From those two unit banks; yes, sir.

Mr. PECORA. You know that that was the general procedure followed with all the unit banks.

Mr. LORD. I do not, sir.

Mr. PECORA. Do you mean that?

Mr. LORD. I do.

Mr. PECORA. Why do you think it was desired to have the unit banks wire Colonel Walsh each morning until after the next call date, as early as possible, and certainly not later than 10 a.m., a statement of the deposits of the unit bank and the bills payable of the unit bank?

Mr. LORD. I do not know, sir.

Mr. PECORA. You do not know?

Mr. LORD. I do not know why he wanted it every day.

Mr. PECORA. All this is new to you, apparently.

Mr. LORD. I never saw those letters before.

Mr. PECORA. I say, this whole scheme is new to you—those mechanics.

Mr. LORD. Those mechanisc are new to me.

Mr. PECORA. You never heard of them before?

Mr. LORD. No, sir.

Mr. PECORA. Who assigned Colonel Walsh to handle this part of the mechanics?

Mr. LORD. Mr. Pecora, I assume it came in a general discussion at board meeting, as to the division of duties. I do not recall exactly how the assignment was made.

Mr. PECORA. You were the president of the Guardian Detroit Bank at the time these letters were written.

Mr. LORD. I was.

Mr. PECORA. You were also president of the group at the same time.

Mr. LORD. I was; yes, sir.

Mr. PECORA. Colonel Walsh was executive vice president of the Guardian Detroit Bank at the time these letters were written.

Mr. LORD. Yes, sir.

Mr. PECORA. Also an officer of the group.

Mr. LORD. Yes, sir.

Mr. PECORA. You were the operating head of both the Guardian Detroit Bank and of the group, were you not?

Mr. LORD. Yes, sir.

Mr. PECORA. Can you not tell the committee who assigned important duties to different men in your bank and in your group?

Mr. LORD. The duties of the officers are covered, in a measure, by the bylaws of the institution.

Mr. PECORA. We know that. We know what the general duties are. You will not find anything in the bylaws that authorized Colonel Walsh to do this particular work, will you?

Mr. LORD. No, sir.

Mr. PECORA. Tell us who assigned him to this particular work.

Mr. LORD. I do not know whether it was I or the board. I do not recollect. It may have been by my recommendation.

Mr. PECORA. Why do you think Colonel Walsh, in these letters, requested the heads of the unit banks to whom these letters were addressed, as follows [reading]:

> Even if you do not need any additional deposits to offset bills payable, it is extremely important that I be informed accordingly, as I may be holding up several other moves awaiting to hear from you.

Mr. LORD. I have no idea. I do not know what he is talking about when he says " other moves " unless it is similar situations.

Mr. PECORA. Unless it is similar situations in what respect?

Mr. LORD. Taking a bank out of the bills payable.

Mr. PECORA. In other words, he wanted this information from all the unit banks, even though any unit bank did not have any bills payable, or required no deposits with which to offset bills payable, so that he would know how to allocate funds from the parent bank to take care of the bills payable of their unit banks.

Mr. LORD. Let us not use the words " parent bank ", because they were entirely separate corporations, occupying the same relative position.

Mr. PECORA. All right. I will modify the question by referring to the creditor bank instead of the parent bank.

Mr. LORD. I do not even know that those banks owed the Guardian National Bank of Commerce money. They may have owed it to another bank. They may have owed it to the Federal Reserve bank. They may have borrowed it somewhere else.

Mr. PECORA. I do not think that answers my question.

Mr. LORD. Will you repeat the question, please?

Mr. PECORA. You notice that in these letters, exhibits 37 and 38, Colonel Walsh makes the following statement in each of those two letters [reading]:

Even if you do not need any additional deposits to offset bills payable, it is extremely important that I be informed accordingly, as I may be holding up several other moves awaiting to hear from you.

What do you suppose he meant by that?

Mr. LORD. I think I answered that question, did I not?

Mr. PECORA. Will you answer it again? I did not understand it.

Mr. LORD. I assume that there may have been other situations where he wanted the banks to be out of bills payable. I do not know how many letters he sent out to the units of that tenor at that time. You have shown me 2 out of 23 banks and trust companies. I do not know whether he did it to all of them. There is no way I have of knowing. This is the first time, to my recollection, I have ever seen those letters.

Mr. PECORA. Will you be good enough to look at this document that I now show you, which purports to be a photostatic copy of a letter addressed to Colonel Walsh by Mr. Brandon, president of the City National Bank & Trust Co. of Niles, dated September 16, 1931, and tell us if it is a true and correct copy of such a letter sent by Brandon to Walsh?

Mr. LORD. I accept it as a true copy.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Sept. 16, 1931, Brandon to Walsh, was received in evidence, marked "Committee's Exhibit No. 39", Dec. 21, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter has been marked in evidence as committee's exhibit no. 39 of this date. It is written on the letterhead of the Guardian Detroit Union Group, Inc., entitled "Intra-Group Memorandum", dated September 16, 1931, to Mr. James L. Wash, Executive Vice President, Guardian Detroit Bank, from Mr. F. M. Brandon, President City National Bank & Trust Co., Niles [reading]:

Personal.

DEAR COLONEL: Confirming our telephone conversation today, we have borrowed $50,000 of the Federal Reserve bank on Government securities and believe we will need possibly another $50,000, and knowing your desire to avoid, if possible, bills payable, it occurred to us that you might arrange a deposit which would automatically eliminate bills payable at this time, when we are all looking for a call to report from the Comptroller.

This loan is in no sense occasioned by a local loan demand, but is only because of a very decided decline in time deposits, which you know we have faced since June 15 this year, and I shall depend upon your cooperation in arranging for funds in the best way you think desirable at this time.

Yours very truly,

F. M. BRANDON.

Is this letter enlightening to you, Mr. Lord, concerning the details of the mechanics employed to offset bills payable of unit banks to some other bank in the group which was a creditor bank?

Mr. LORD. On that particular transaction it is enlightening. Apparently that bank was borrowing from the Federal Reserve bank, not from the Guardian National Bank of Commerce. They speak of

borrowing $50,000 on Government securities from the Federal Reserve bank.

Mr. PECORA. The letter says just a little bit more than that, does it not?

Mr. LORD. It says he might need $50,000 more.

Mr. PECORA. It says:

> We believe we will need possibly another $50,000, and knowing your desire to avoid, if possible, bills payable, it occurred to us that you might arrange a deposit which would automatically eliminate bills payable at this time, when we are all looking for a call to report from the Comptroller.

Mr. LORD. That is perfectly clear.

Mr. PECORA. And clearly informs you to the effect, in substance, that these deposits were sought by debtor banks in the group from other banks in the group at about the time when they were expecting a call to report from the Comptroller, in order to enable the debtor banks to avoid the necessity for reporting bills payable.

Mr. LORD. In order to enable that debtor bank; yes.

Mr. PECORA. Do you think this was an exceptional case, Mr. Lord, or is it typical of the policy that was pursued by the group and its unit banks?

Mr. LORD. I do not know how many transactions of that character took place at that time. I have no information.

Senator COUZENS. Was that policy adopted wherever it was thought to be necessary?

Mr. LORD. Senator, I have testified it was the desire and effort of every unit bank to get out of debt, and to get out of debt at that time as well as throughout the year, wherever they could. I cannot say very much more than that.

Senator COUZEN. So it was the policy——

Mr. LORD. It was the policy to keep our bills payable at the minimum at all times.

Senator COUZENS. Even though you had to transfer deposits from one bank to another.

Senator ADAMS. The Federal Reserve bank was created largely for the purpose of making loans to banks, was it not?

Mr. LORD. Yes, sir.

Senator ADAMS. Why should there be such a reluctance on the part of the bank to show that it was participating in the actual functions for which the Federal Reserve bank was created?

Mr. LORD. Senator Adams, the public did not care whether you were borrowing from the Federal Reserve bank, or where you were borrowing at that time. Any bank borrowing made a bad impression on the public mind.

Senator ADAMS. But the borrowing did not increase the liabilities of the bank, did it, if it used the money to pay deposits?

Mr. LORD. Not a bit. The liabilities of the bank were either in borrowed money or to a depositor. I might say, in connection with that Niles situation, that it was a very critical situation, because, if my recollection is correct, at or about that time there were several bank failures in South Bend. The result was that Niles, which is only a short distance from South Bend, suffered very considerably in loss of deposits, and Mr. Brandon speaks in his letter of the need for borrowing because of the decline in their time deposits.

Senator ADAMS. Mr. Lord, have not the banks had a good deal to do with creating the public feeling about loans?

Mr. LORD. I think they have.

Senator ADAMS. Here was the Federal Reserve, created to make the assets of the country liquid and available, the Federal Reserve furnishing currency, taking in their good loans of eligible paper, in order that the bank might accommodate its people. The bank that really accommodated its community would go to the Federal Reserve to get some additional accommodations to help the community. Why should the banks both avoid doing that and avoid having the thing made public?

Mr. LORD. Senator Adams, in normal times the public would not have thought anything about a bank's borrowings. Those were not normal times, nor have we had normal times for the past 3 or 4 years. The banks, as I testified yesterday, brought that on themselves, in my opinion, by showing pride in attempting to keep out of bills payable, and being proud of it when they were out of bills payable. The Federal Reserve bank, as you say, was created for the very purpose of aiding the banks, and I blame the bankers, myself included, for the education of the public along that line.

Senator ADAMS. You remember in 1920 and 1921 tremendous loans were made by the Federal Reserve, greater than had ever been made before.

Mr. LORD. I do. I was in the banking business in Chicago at that time, and it was a pride to show borrowings from the Federal Reserve at that time, to help the war, or help the depression after the war. I blame the bankers for that, myself included.

The CHAIRMAN. Here was a bank that had reported that it had borrowed $50,000 from the Federal Reserve.

Mr. LORD. Yes, sir.

The CHAIRMAN. Should not that be listed as bills payable?

Mr. LORD. If they owed it at the time of the statement; yes, sir.

The CHAIRMAN. How did you expect to cancel that, by arranging a deposit to the credit of this bank with you, to the amount of $50,000?

Mr. LORD. Correct, depositing with that bank $50,000, giving them the funds with which to pay those bills payable, whether they were at the Federal Reserve bank or elsewhere.

The CHAIRMAN. That is what he calls automatic settlement?

Mr. LORD. That is what he speaks of as automatic. It is not automatic. It takes a separate transaction.

The CHAIRMAN. The bills would not be paid at all, would they? It was just a bookkeeping proposition.

Mr. LORD. No, sir. The bills would be paid.

The CHAIRMAN. You would pay the Federal Reserve bank $50,000?

Mr. LORD. Yes, sir.

The CHAIRMAN. And they would owe it to you instead?

Mr. LORD. They would not owe it to us, except as a depositor.

Mr. PECORA. That is virtually owing it to you, is it not?

Mr. LORD. Certainly. A bank is a debtor to all its depositors.

Mr. PECORA. Then, in its report, in response to the Comptroller's call for a report, that loan, or rather that indebtedness, would not

appear in the debtor bank's report of condition as a bill payable, would it?

Mr. LORD. No; but it would appear in the debtor bank's, or in that bank's obligation to its depositors.

Mr. PECORA. Which is something entirely different from its appearance as a bill payable, is it not?

Mr. LORD. Yes; it is different.

Mr. PECORA. This whole thing was simply done to enable the unit banks, in making out their reports of condition pursuant to the call of the Comptroller of the Currency, to avoid reporting to the Comptroller that they actually owed bills payable, was it not?

Mr. LORD. It was done in order to pay off the bills payable.

Mr. PECORA. Were the bills payable entirely liquidated, and the debtor bank entirely freed of the obligation?

Mr. LORD. So far as I know they were, sir.

Mr. PECORA. Was not another obligation substituted for the original obligation?

Mr. LORD. The obligation to a depositor; yes.

Mr. PECORA. Yes. But that obligation so substituted was of a character that made it unnecessary to report it or make it appear as a bill payable, was it not?

Mr. LORD. It was unnecessary to report bills payable when there were no bills payable.

Senator COUZENS. What were your relations with the Federal Reserve Bank? Did they examine your banks?

Mr. LORD. Senator Couzens, my recollection is that the Federal Reserve in Detroit accepted the national and the State reports, depending upon whether it was a national or State institution.

Senator COUZENS. It did not send in separate examiners?

Mr. LORD. Not so far as I know. Mr. Patterson might be able to enlighten you on that.

Senator COUZENS. Who is the head of the Federal Reserve at Chicago now?

Mr. LORD. They have just had a new appointment, Senator. I saw it in the paper today. I have forgotten his name—some man fom Iowa. Governor McDougal has been.

Senator COUZENS. What was Mr. Steven's activity with the Federal Reserve at Chicago?

Mr. LORD. He is a director of the Federal Reserve, representing the Washington end in Chicago.

Senator COUZENS. He is there now?

Mr. LORD. Yes, sir.

Senator COUZENS. Mr. Chairman, I would like to have Mr. Stevens, of the Federal Reserve Bank of Chicago, subpoenaed before the committee.

Mr. PECORA. What is his full name?

Mr. LORD. Eugene W. Stevens. Senator Couzens, may I comment? I do not think Eugene Stevens would know as much detail of the banks in the district as Governor McDougal or his assistant, Mr. McKay. He might.

Senator COUZENS. Is Governor McDougal still there?

Mr. LORD. He has been on leave of absence.

Senator COUZENS. Has he not been ill for quite some time?

Mr. LORD. He has been quite ill and a new appointment was announced in the paper today.

Senator COUZENS. Mr. Stevens was present the night the famous closing order was issued, was he not?

Mr. LORD. If my recollection is correct he was there at or about that time.

Senator COUZENS. As I understand it he participated in the negotiations that closed all the banks in Michigan on the night of February 13.

Mr. LORD. I think so.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a letter, or so-called intra-group memorandum, addressed to Mr. James L. Walsh by Mr. Alexander Robertson, vice president of the National Bank of Ionia, Mich., dated September 19, 1931, and which is in answer to the letter of Colonel Walsh to Mr. Robertson of September 13, 1931, which was offered in evidence here a few minutes ago. Will you look at this photostatic copy and tell me if it is a true and correct copy of such a letter?

Mr. LORD. Yes; I think it is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Sept. 19, 1931, Robertson to Walsh, was received in evidence, marked "Committee Exhibit No. 40", Dec. 21, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter has been marked Committee's Exhibit No. 40 in evidence, and reads as follows. It is on the letterhead of the Guardian Detroit Union Group, Inc., dated September 19, 1931 [reading]:

> DEAR COLONEL. Your letter of September 17 requesting daily wires as to our deposits and bills payable was received. The only bills payable we have are the amounts advanced on certificates of deposit by the Guardian Bank, which at present is $400,000, so I think there is no need to mention this in our wires. If there is you can advise me.
>
> Very truly yours,
>
> NATIONAL BANK OF IONIA,
> (Signed) ALEXANDER ROBERTSON,
> *Vice President.*

Does this letter enlighten you concerning the purposes for which these certificates of deposit were used, to offset bills payable?

Mr. LORD. That letter enlightens me to the extent of saying that the Guardian National Bank of Commerce had $400,000 on deposit with the National Bank of Ionia.

Mr. PECORA. Is it not a fact that Mr. Robertson himself, in words, calls that a bill payable?

Mr. LORD. He does.

Mr. PECORA. So that he was not deceived in any way by the situation, was he?

Mr. LORD. That may not have been the fact, however.

Mr. PECORA. He regarded a certificate of deposit in the same light as a bill payable.

Mr. LORD. I do not know whether he did or not.

Mr. PECORA. Does not his letter indicate that?

Mr. LORD. It would indicate that; yes.

Senator COUZENS. So, in effect, this banker thought that $400,000 was substantially a bill payable.

Mr. LORD. It probably was a case where he wanted to liquidate that deposit of $400,000, and in his own mind he considered it as an advance by the Guardian National Bank of Commerce in the form of a deposit which he ultimately wanted to get rid of through liquidation.

Senator COUZENS. Is it customary for banks to liquidate their deposits without a demand of the depositor? Does a bank go to a depositor and ask him to take his money out?

Mr. LORD. It has been done.

Senator COUZENS. That is a rare instance.

Mr. LORD. If it is too large a deposit in 1 month; yes.

Senator COUZENS. It is a rare incident, is it not?

Mr. LORD. Yes; I would say so, for a substantial-sized bank.

Mr. PECORA. Now, Mr. Lord, let us have before us the letter of Colonel Walsh to Mr. Robertson, dated September 17, 1931, marked "Committee's Exhibit 37", to which this letter, Exhibit No. 40, is specifically the reply. You observe that in Colonel Walsh's letter of September 17, 1931, to Mr. Robertson he specifically asks Mr. Robertson as follows [reading]:

From now until after next call date, will you please wire me propmptly each morning giving me your deposits in thousands of dollars and also your bills payable in thousands of dollars.

This letter of Mr. Robertson, in answer to that letter of September 17 from Colonel Walsh, says [reading]:

DEAR COLONEL: Your letter of September 17 requesting daily wires as to our deposits and bills payable was received. The only bills payable we have are the amounts advanced on certificates of deposits by the Guardian Bank, which at present is $400,000, so I think there is no need to mention this in our wires.

It is not apparent to you, from this correspondence, what the purpose of it all was?

Mr. LORD. Of that deposit?

Mr. PECORA. Of this whole policy.

Mr. LORD. Mr. Pecora, I have told you the purpose of the policy, namely, to get the banks out of bills payable.

Mr. PECORA. Wasn't that done for the purpose of enabling the banks in their reports submitted in response to calls to create a better appearance than they actually had?

Mr. LORD. I would say to put them in a stronger financial position.

Mr. PECORA. Were they actually put in a stronger financial position?

Mr. LORD. They had the deposits.

Mr. PECORA. Were they actually put in a stronger financial position?

Mr. LORD. I would think so.

Mr. PECORA. They owed $400,000 under the certificate of deposit?

Mr. LORD. To a depositor; yes.

Mr. PECORA. Does that put the bank in a stronger position than if they owed the $400,000 as a bill payable?

Mr. LORD. It does not make their liabilities any less, no; but I consider that it puts a bank in a stronger position to have its liabilities in the form of deposits rather than bills payable. Certainly the public thought so.

Mr. Pecora. How do you know the public thought so? What evidence have you that the public thought so?

Mr. Lord. Mr. Pecora, through this whole history of the last 3 years you know and I know the result on the public of a bank showing bills payable.

Mr. Pecora. I don't know anything about it, Mr. Lord.

Mr. Lord. I do.

Mr. Pecora. All right. Apparently the public felt no differently then from the way the bankers felt, judging by the congratulatory letters and telegrams that you received from different bankers all over the country in answer to your communication to them showing that all of the unit banks of the Group on December 31, 1930, had no bills payable?

Mr. Lord. I did not ask the public.

Senator Adams. Mr. Lord, was this $400,000 certificate of deposit secured by any collateral?

Mr. Lord. Not that I know of. I don't know the details, Senator. That transaction did not come under my direct operations, and I don't know.

Senator Adams. You do not know whether or not they were demand C.D.'s or had a definite period?

Mr. Lord. I assume they were demand C.D.'s, although I don't know.

Mr. Pecora. I show you another letter, or rather, what purports to be a photostatic copy of a letter, addressed to Mr. Walsh by Mr. H. S. Reynolds, president of the Union and Peoples National Bank of Jackson. Will you look at it and tell me if you recognize it to be a true and correct copy of such a letter?

Mr. Lord. I recognize Mr. Reynolds' signature.

Mr. Pecora. I offer it in evidence.

The Chairman. Let it be admitted and incorporated in the record.

(Letter dated Sept. 18, 1931, from H. S. Reynolds to James L. Walsh was designated "Committee Exhibit No. 41, Dec. 21, 1933", and the same appears immediately following where read by Mr. Pecora.)

Mr. Pecora. The letter that has been marked "Committee's Exhibit No. 41" in evidence is written on the letterhead of the Guardian Detroit Union Group, Inc., entitled "Intra-Group Memorandum", dated September 18, 1931, addressed to James L. Walsh, executive vice president, Guardian Detroit Bank, Detroit, from H. S. Reynolds, president, Union & Peoples National Bank of Jackson [reading]:

> Dear Jim: We will be very glad to wire you daily regarding our deposits and loans. I have been hoping to hear from you every day about a deposit. I think it is very important that we do not show any bills payable and that our deposits are increased between now and the time of the call. I have been hoping every day to get some outside money, and I sincerely trust that you will do something for us in the next 3 or 4 days.
>
> Yours very truly,
>
> (Signed) H. S. Reynolds.

Does this letter, Mr. Lord, enlighten you concerning any other practice or policy of the bank and its unit banks?

Mr. Lord. Any other policy?

Mr. Pecora. Yes.

Mr. LORD. To this extent, that unit banks frequently called upon Colonel Walsh and others in the Guardian National Bank of Commerce, Guardian Detroit Bank, to aid them in securing deposits of outsiders.

The CHAIRMAN. Doesn't it in effect call on Colonel Walsh to send up some money himself?

Mr. LORD. That would be the implication of the letter.

Mr. PECORA. That is the implication, that he was looking to Colonel Wash, who is executive vice president of the Guardian Detroit Bank, to furnish such deposits, so as to enable this unit bank to make a showing of increased deposits between the date of this letter and the time of the next call for report from the Comptroller?

Mr. LORD. To enable that bank to liquidate its bills payable. Isn't that what he says?

Mr. PECORA. No; it does not say that. That is why I asked you if it didn't enlighten you as to some other policy.

Mr. LORD. Will you read the letter?

Mr. PECORA. All right.

DEAR JIM: We will be very glad to wire you daily regarding our deposits and loans. I have been hoping to hear from you every day about a deposit. I think it is very important that we do not show any bills payable and that our deposits are increased between now and the time of the call. I have been hoping every day to get some outside money, and I sincerely trust that you will do something for us in the next 3 or 4 days.

Mr. LORD. Mr. Pecora, the only way that bank could pay its bills payable was through increased deposits.

Senator COUZENS. Couldn't it also pay its bills payable by collecting its debts?

Mr. LORD. Yes; over a period, Senator Couzens.

Senator COUZENS. Certainly that is not the only way that you can pay your bills payable, by borrowing money.

Mr. PECORA. Doesn't this letter suggest to you that another settled policy of the Group and its unit banks was to do that which would serve to show an increase in deposits?

Mr. LORD. I don't think so. I think the purpose of Mr. Reynolds was the liquidation of these bills payable.

Mr. PECORA. There is not any mention of liquidating bills payable in this letter, is there?

Mr. LORD. So we will not show or have any bills payable.

Mr. PECORA. It says:

I have been hoping to hear from you every day about a deposit. I think it is very important that we do not show any bills payable and that our deposits are increased between now and the time of the call.

There were two purposes he had in mind, two objectives: One, to take care by certain methods of bills payable, and secondly, to increase the deposits between the date of this letter and the time of the next call?

Mr. LORD. Mr. Pecora, every bank was striving to increase its deposits in the face of the constant seepage of deposits. There is nothing wrong about that, trying to increase your deposits. We were going after new business for ourselves and for our unit banks constantly.

Mr. PECORA. We know that all banks try to increase their deposits as much as possible.

Mr. LORD. Certainly.

Mr. PECORA. But in this particular instance I am discussing with you whether or not it was the policy of the group and its unit banks to do something which would enable the unit banks from time to time and when considered strategically important to do so, to show increases in their deposits.

Mr. LORD. Mr. Pecora, the unit banks were struggling and striving every day of the year to increase their deposits. It was not particularly at statement date, although Mr. Renolds mentioned it. But we were fighting all the time to increase deposits.

Mr. PECORA. But this particular letter——

Mr. LORD (interposing). He calls attention to it at statement time, yes; but we had an organization known as the business development department.

Mr. PECORA. I know, but now, Mr. Lord, in case of this group of unit banks, because of the existence of the group and the affiliation among the various unit banks in the group, it was easily possible for a unit bank that desired, for any particular reason, at any call date a good showing, by way of increase of deposits, to make such a showing through the mere expedient of getting one of the other banks in the group to make a deposit?

Mr. LORD. It is possible; yes.

Senator COUZENS. Well, now, you referred a while ago to "new business." You would not call that new business, would you?

Mr. LORD. No; but I was referring to the outside money, Senator.

Senator COUZENS. Yes. But the evidence is quite clear that there was a swapping of deposits that was quite extensively engaged in, so as to build up a fictitious amount of money in the individual units of the bank, and undoubtedly that would have been the effect had the Guardian Bank given the Jackson bank a deposit, because giving them a deposit would not have diminished the deposits in the Detroit bank but would have augmented the deposits in the Jackson bank.

Mr. LORD. As I recall the Jackson situation, we carried a substantial account in Jackson for many months, just how long I don't know.

Mr. PECORA. Wasn't it the settled policy of the Group to do that which would enable unit banks from time to time and whenever considered strategically important and necessary for them so to do, to have one or more of the banks in the Group to make deposits with another unit bank in the Group, so as to enable that other unit bank in the Group to make a good showing by way of increase of deposits?

Mr. LORD. No, sir.

Mr. PECORA. What?

Mr. LORD. No, sir.

Mr. PECORA. That was not the policy of the bank?

Mr. LORD. No, sir. The purpose of those deposits was to liquidate the bills payable.

Mr. PECORA. Well, would you say that as a result of the way by which bills payable were offset by deposits one of the effects created by the method was to enable the debtor bank not only to show no bills payable but to show an increase of deposits?

Mr. LORD. That was the effect; yes. That was not the purpose. The purpose was to liquidate the bills payable.

Mr. PECORA. You do not think that that was the only purpose——

Mr. LORD (interposing). Absolutely.

Mr. PECORA (continuing). That Mr. Reynolds had in mind when he wrote this letter marked "Committee's Exhibit No. 41"?

Mr. LORD. I do not know what he had in mind except from what he says in the letter.

Mr. PECORA. Well, from what he says in the letter you do not think that?

Mr. LORD. He wanted increased deposits.

Mr. PECORA. Now, you remember that we put in evidence yesterday while you were testifying copy of the Intra-Group Memorandum that you addressed to the board of directors?

Mr. LORD. I do.

Mr. PECORA. Showing that as of December 31, 1930, the deposits had increased by 7½ million dollars during the preceding 3 months and that there were no bills payable shown by any of the unit banks in the group: you recall that exhibit?

Mr. LORD. Yes, sir. I don't remember the 7½ million figure. I guess it must be correct.

Mr. PECORA. Will you be good enough to look at this document which I now show you and which purports to be a photostatic copy of a letter addressed by Mr. Walsh to Herbert S. Reynolds, president of the Union & Peoples National Bank of Jackson, dated December 31, 1930, and tell us if you recognize it to be a true and correct copy of such a letter?

Mr. LORD (after examining document). I never saw the letter, I assume it is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and embodied in the record.

(Letter dated Dec. 31, 1930, from James L. Walsh to Herbert S. Reynolds was designated "Committee Exhibit No. 42, Dec. 21, 1933", and the same appears immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter is marked "Committee's Exhibit No. 42" in evidence, written on the letterhead of the Guardian Detroit Bank, addressed to Mr. Herbert S. Reynolds, President, Union & Peoples National Bank of Jackson, dated December 31, 1930 [reading]:

> DEAR HERB. It begins to look as if none of the banks or trust companies in the Group will be borrowing at the close of business December 31, 1930. Some of the banks have made a point of showing bills payable none—

the word "none" being written out in capitals—

> in order to emphasize this particular point. In Guardian Detroit Bank we are going to set up our statement with the word "none"—

in capital letters—

> instead of 0.00. I am passing along this information to you for what it may be worth.
>
> Please send me at least one half a dozen of your printed statements as soon as they are ready, because I have some time deposits under negotiation concerning which I will get in touch with you as they develop.
>
> May I not take advantage of this opportunity to thank you for the contribution you have made to the work of the operating committee, to the cooperation you have extended to me personally during the past year, and to wish for you a happy and prosperous New Year.
>
> Cordially yours,

Signed by Mr. James L. Walsh, who is chairman of the operating committee of the Guardian Detroit Union Group, Inc.

Now, will you tell the committee, Mr. Lord, what you think Colonel Walsh had in mind when he made the request to Mr. Reynolds in this letter for half a dozen of the printed statements in Mr. Reynolds' bank "because"—quoting from the letter

I have some time deposits under negotiation concerning which I will get in touch with you as they develop.

Mr. LORD. I assume Mr. Walsh meant just what he said.

Mr. PECORA. Well, what? What was it?

Mr. LORD. I assume that some of the corporations with which the Guardian or some of our units were doing business Mr. Walsh was negotiating with to deposit funds in Mr. Reynolds' bank on time, outside money entirely.

Mr. PECORA. So that Mr. Walsh could place these time deposits in such of the unit banks as would best be served thereby?

Mr. LORD. So that the corporations could place them in those unit banks.

Mr. PECORA. Yes. Then it was within the province and power, because of this group system, for officers of the group to distribute deposits among the various banks that were units of the Group in such manner as would be most helpful to the individual units that belonged to the Group?

Mr. LORD. No, sir; it was not within their power. The corporations or individuals, whoever made the deposits, placed them wherever they chose. It may have been the desire of Colonel Walsh to get some corporation to make a deposit in Mr. Reynolds' bank, but the officers of our bank had no power to do that for one minute.

Mr. PECORA. Well, whether they had the power or not, was not the situation, due to the existence of this group system of banking, one that would enable the executive officers of the group to influence deposits in such of the unit banks as might be considered most advisable in the interest of the group?

Mr. LORD. The officers of the group, Mr. Pecora, may have solicited from this unit or that unit a deposit from this person or that corporation, but they had no control over where the corporation would put their funds in any way.

Mr. PECORA. Let me show you this document, which purports to be a photostatic reproduction of a letter or Intra-Group Memorandum addressed to Mr. Walsh by Mr. Brandon, president of the City National Bank & Trust Co. of Niles, dated January 5, 1931. Will you look at that and tell me if it is a true and correct copy of such a letter?

Mr. LORD. I recognize Mr. Brandon's signature.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and incorporated in the record.

(Letter dated Jan. 5, 1931, from F. M. Brandon to James L. Walsh was designated "Committee Exhibit No. 43, Dec. 21, 1933", and the same appears immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter that has been received and marked "Exhibit No. 43" reads as follows [reading]:

DEAR COLONEL: Your letter of the 3d with reference to the next meeting of the operating committee at Flint is received, and it will be satisfactory to me to meet on Thursday the 22d instead of Friday the 23d.

Permit me to congratulate you on the splendid showing made by the Detroit units of the Group, as reflected in the growth of deposits, and it is also especially gratifying to me that all of the units of the Group were able to show bills payable none. No doubt the consolidated accounts in Chicago were a very helpful factor in showing this increase in Detroit, and we are glad to have had the opportunity of cooperating with you in bringing this about.

Very truly yours,

(Signed) F. M. BRANDON.

Senator COUZENS. What did he mean in there by the "consolidated reports in Chicago"?

Mr. LORD. "Consolidated accounts."

Senator COUZENS. Oh, "accounts." What accounts were consolidated?

Mr. LORD. Senator Couzens, I haven't all the details of that in mind, but at one time there was an arrangement under which, instead of, we will say, the Grand Rapids National and Ionia and Jackson or some group of banks each carrying a separate correspondent account, they combined it into one account, which made it more valuable to the Chicago bank, and they all had the privilege of drawing from their account, from that one account. I think that is the way it was handled. On their books they carried whatever balances they had, just as though they had their separate accounts.

Senator COUZENS. Under what name was it carried in the Chicago banks?

Mr. LORD. Well, I suppose it was carried under the three names or whatever they were, so that each bank could draw against it.

Senator COUZENS. Yes; but you said it was consolidated accounts. How many were consolidated?

Mr. LORD. I suppose that is what he meant. Senator, you will have to ask somebody else who knows more of the details about it.

Senator COUZENS. Colonel Walsh will know more about it.

Senator ADAMS. What is the advantage of that?

Mr. LORD. It made a better account for the Chicago bank. Instead of having a dozen accounts of ten or fifteen thousand in balances, they combined a lot of detail in one account, and it was thrown into one account, and it made a better account for them. That was the theory of it.

Senator COUZENS. Why was it abandoned?

Mr. LORD. I don't recall. It was an operating committee matter.

Senator ADAMS. Mr. Lord, in the operation of these unit banks was there any disposition or effort to have a bank in B with a deposit in C and C in D?

Mr. LORD. Oh, absolutely no.

Senator ADAMS. There was no pyramiding of deposits?

Mr. LORD. No, Senator; every bank in our group had of necessity to carry a Detroit correspondent.

Senator ADAMS. The bank in Lansing did not carry one in Jackson?

Mr. LORD. Oh, no; there was no effort to do that. I think if the record were taken out showing what you might call the interbank deposits, it was a very modest figure.

Senator COUZENS. I am glad you asked that question, Senator Adams, because I think the results are so different.

Mr. LORD. Well, I haven't the figures, Senator Couzens, but I question that it would show any substantial amount.

Senator COUZENS. Would you consider 18 millions a substantial amount?

Mr. LORD. No; not with deposits of 400 million, Senator.

Senator COUZENS. It might be a substantial amount to a small unit with a few millions of deposits, might it not?

Mr. LORD. Yes; but there were 23 banks and trust companies. I do not know the figures, but I doubt whether it averaged 18 million. There may have been periods, due to the fluctuation of business, where it went up and down.

Senator ADAMS. In the conduct of your system did the Guardian Bank act as a general depositary in Detroit of the other 22 members of the system?

Mr. LORD. Yes, sir.

Senator ADAMS. What would be the situation where you were taking out a bill payable? Say the Niles bank had its reserves carried with the Guardian Bank and the Guardian Bank——

Mr. LORD (interposing). Senator Adams, the Niles bank, being a national bank, had to carry its reserves in the Federal Reserve bank.

Senator ADAMS. It did not carry all of them.

Mr. LORD. It might have had some excess, yes.

Senator ADAMS. Was there such a condition that the Niles bank had on deposit in the Guardian Bank a certain amount, and then the Guardian Bank, in order to help them meet the bills payable, would make a separate deposit; that is, each would pass on the independent deposits rather than offsetting?

Mr. LORD. Well, of course, in case of trouble the deposits would offset, in case of trouble. But they are entirely separate transactions.

Senator ADAMS. They might have been carried as separate deposits so that they were actually susceptible of offsetting, but the offsetting was not done?

Mr. LORD. Yes, that is correct.

Mr. PECORA. Mr. Lord, will you look at this document which I now show you and which purports to be a photostatic copy of a letter addressed by Mr. Walsh to Mr. Frank M. Brandon, president of the City National Bank & Trust Co. of Niles, dated January 6, 1931, and tell me if you recognize it as a true and correct copy of such a letter?

Mr. LORD (after examining document). I recognize Colonel Walsh's initials on that.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Letter dated Jan. 6, 1931, from James L. Walsh to Frank M. Brandon was designated "Committee Exhibit No. 44, Dec. 21, 1933", and appears immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter marked "Committee's Exhibit No. 44" in evidence, reads as follows; it is on the letterhead of the Guardian Detroit Bank, addressed to Mr. Frank M. Brandon, president of the City National Bank & Trust Co., Niles [reading]:

DEAR FRANK: This is just a brief note to congratulate you on being able to show the item "Bills payable—none" in your statement of condition as of

December 31, 1930. I was also pleased to note the change you made in the set-up of your statement by eliminating the item in "Trust Assets." I, too, feel that this is a step toward bringing the statements of all of the group banks into harmony.

Your personal remarks are greatly appreciated, and I, too, am looking forward to a very pleasant association with you in the year 1931.

Cordially yours,

Signed J. L. W.

Those were Mr. Walsh's initials, were they not?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, what do you understand by the reference in this letter to an elimination in the statement of condition of Mr. Brandon's bank of the item in "Trust assets"?

Mr. LORD. Mr. Pecora, that is a technical matter. Some banks, as a matter of form, will carry off-setting items on each side of their statement, of bonds in safe keeping or trust assets, on the asset side, off setting the liability side. It meant absolutely nothing. It merely distorted the bank's statement of its own resources and liabilities. Now it is a technical matter that probably Colonel Walsh can explain. It is a detail that I would not follow myself, but that is my understanding. There are a great many State banks that used to carry bonds in safe keeping that might run up to several hundred thousand dollars, and that might swell their statement, giving it the appearance of a bigger institution than it actually was.

Senator ADAMS. It had no effect on the net worth of the bank?

Mr. LORD. Absolutely no effect.

Senator ADAMS. Merely on the aggregate or totals on the two sides?

Mr. LORD. Yes, sir.

Senator COUZENS. Yes; but wasn't it quite an ordinary discussion to talk about your totals?

Mr. LORD. Not distorted that way, Senator.

Mr. PECORA. Didn't it show a larger amount of total resources for that year?

Mr. LORD. Than we wanted to show, and that is why it was taken out; because it gave to my mind a somewhat false impression of the totals of the bank.

Mr. PECORA. Exaggerated impression?

Mr. LORD. Yes; I think it did.

Senator ADAMS. Banks have used that term "resources" and used that total sometimes as if it meant something?

Mr. LORD. Yes; and it really meant nothing, because they were offsetting items on both the asset and liability side.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a telegram sent to Mr. Herbert R. Wilkin, executive vice president Union Industrial Trust & Savings Bank, Flint, Mich., by James L. Walsh under date of December 30, 1930. Will you look at it and tell me if you are familiar with the transaction to which that relates?

Mr. LORD. I know nothing about it at all. Never saw the telegram.

Mr. PECORA. I show you now another photostatic reproduction of what purports to be an intra-Group memorandum letter addressed to Mr. Wilkin by Mr. Walsh under date of December 31, 1930. Will you look at it and tell me if you recognize it as being a true and correct copy of such a Group memorandum or letter?

Mr. LORD (after examining document). I recognize Colonel Walsh's signature.

Mr. PECORA. I offer it in evidence.

Mr. LORD. Do you want both of them?

Mr. PECORA. Both the telegram and the letter.

Mr. LORD. I don't know anything about the telegram. There is no way of identifying it. I assume it is all right.

The CHAIRMAN. Let them be admitted and entered on the record.

(Photostat of telegram dated Dec. 30, 1930, from James L. Walsh to Herbert R. Wilkin was designated "Committee Exhibit No. 45, Dec. 21, 1933," and appears immediately following where read by Mr. Pecora.)

(Intra-group memorandum dated Dec. 31, 1930, from James L. Walsh to H. R. Wilkin was designated "Committee Exhibit No. 46, Dec. 21, 1933," and appears immediately following where read by Mr. Pecora.)

Mr. PECORA. The telegram marked "Exhibit No. 45" reads as follows [reading]:

DECEMBER 30, 1930.

HERBERT R. WILKIN,
Executive Vice President, Union Industrial Trust & Savings Bank, Flint, Mich.

Wire me early Wednesday morning your total bills payable, if any, and will endeavor to secure deposit for you to offset.

JAMES L. WALSH.

The letter marked in evidence as "Committee Exhibit No. 46" is on the letterhead of the Guardian Detroit Union Group, Inc., entitled "Intragroup Memorandum", dated December 31, 1930, addressed to Mr. H. R. Wilkin, executive vice president and cashier, Union Industrial Trust & Savings Bank, Flint, from Mr. James L. Walsh, vice president, Guardian Detroit Bank. It reads as follows [reading]:

DEAR HERB: Agreeable with our telephone conversations today, we have credited your account $1,800,000, representing your certificate of deposit for $1,200,000 received by messenger and a transfer of $600,000 received through the Federal Reserve bank.

In accordance with your instructions we have charged your account with your notes to the Guardian Detroit Bank aggregating $1,800.000, plus accrued interest to date amounting to $155.55. We are enclosing duplicate deposit ticket in acknowledgment of above credit, debit advice, and your canceled notes.

You will be gratified to know that none of the units of the Guardian Detroit Union Group will show one dollar of bills payable in their annual statements to be published shortly.

With best wishes for a happy and prosperous new year, I am,

Cordially yours,

JAMES L. WALSH.

Mr. PECORA. What does this letter indicate to you as the transaction alluded to therein?

Mr. LORD. Aside from the letter, I know nothing about the transaction. The letter would indicate that the deposit was $1,200,000 made by the Guardian Bank with the Flint Bank; that the proceeds of that deposit were transferred, or $600,000 of the Flint Bank's funds, making a total of $1,800,000 which was used in liquidation of the note of that bank to the Guardian Detroit Bank.

Mr. PECORA. Was the note actually paid?

Mr. LORD. I assume it was.

Mr. PECORA. Or was it a mere bookkeeping transaction?

Mr. LORD. I assume it was paid and canceled.

Mr. PECORA. And the obligation represented by the note was passed on to the obligation represented by the depositor?

Mr. LORD. Well, in part.

Mr. PECORA. Was the note referred to in this letter, exhibit 46, reinstated after the 1st of January 1931?

Mr. LORD. Mr. Pecora, I know nothing about it. I have no details of the note at all.

Mr. PECORA. Was there a committee known as the "Public Relations Committee", either of the Guardian Detroit Bank or of the group?

Mr. LORD. I have a vague recollection of such a committee.

Mr. PECORA. What were the functions of that committee?

Mr. LORD. I suppose, just what the name implies.

Mr. PECORA. Well?

Mr. LORD. Public relations.

Mr. PECORA. Well, elaborate on that a little, will you?

Mr. LORD. I would say it would handle advertising, publicity of all characters, contacts with the public—whatever comes within the scope of public relations.

Mr. PECORA. I have before me what purports to be a photostatic reproduction of the minutes of a meeting of this public relations committee held on June 25, 1931, in the directors' room of the Guardian Detroit Bank, and which reads as follows——

Mr. LORD. What was the date? Excuse me.

Mr. PECORA. June 25, 1931. [Reading:]

Ernest Kanzler presided as chairman. Present: Messrs. Berry, Kanzler, Keane, and Snow. By invitation: Messrs. Scrymgeour, Winningham, and Paterson.

(1) The minutes of the meeting held May 22, 1931, were read and discussed as follows: The matter of appointing a publicity man in each unit who would be responsible for gathering current news items and either getting them in the local papers or sending them on to Mr. Ernest Kanzler was discussed. Mr. Scrymgeour stated that he had prepared a letter and submitted it to Mr. Walsh, which Mr. Walsh now has. The chairman will take this up with Mr. Walsh direct.

(2) In regard to the posters to be used on the Fort Street side of the Guardian Detroit Bank Savings department in the Penobscot Building, Mr. Berry reported that he had taken the matter up with Mr. Walsh, but due to Doctor Murphy being out of town, nothing definite had been arrived at as yet.

This is what I particularly want to call your attention to, Mr. Lord [reading]:

(a) A discussion followed of the Consolidated Group statement, which is to be printed in poster form 3 or 4 days after the unit statements are available. It was finally decided that this consolidated statement would be printed in the standard form rather than in the understandable form, as it had been originally set up. It was felt that the understandable form was devised at a time when conditions warranted such a statement, whereas the situation is now entirely different, and it will be much better to use the same type of statement for the newspapers, for printed statements, and for posters.

What was the difference between the so-called standard form of report and the understandable form?

Mr. LORD. Mr. Pecora, I do not know anything about it. I do not know what they were talking about. I was not at the meeting and

do not know what the discussion was; and I do not know of any statement that was published that is not in understandable form. It is all Greek to me. I never saw the thing before.

Mr. PECORA. What was the standard form? Let us see how much Greek there was to it.

Mr. LORD. I do not know what they are referring to.

Mr. PECORA. They were referring to the issuance of the Consolidated Group statement, were they not?

Mr. LORD. Yes.

Mr. PECORA. Do you know what that was?

Mr. LORD. I assume it is what appeared in the annual report.

Mr. PECORA. The consolidated group statement was a statement showing the condition of all of the unit banks in the group, in consolidated form?

Mr. LORD. Yes, sir.

Mr. PECORA. And in that consolidated group statement it was necessary to show various items of assets and items of liability?

Mr. LORD. Yes, sir.

Mr. PECORA. There was a so-called standard form of such a statement, was there not?

Mr. LORD. I do not know what he was talking about when he says "standard" or "understandable." I have not the slightest idea.

Senator COUZENS. That was not the question that Mr. Pecora asked. He asked whether or not there was a standard form. I think he was not referring to this particular thing, but was there a standard form?

Mr. LORD. As I understand the words "standard form", it is the statement which appeared in the annual report. I do not know of any other form.

Mr. PECORA. Did you ever hear of another form called or designated as an understandable form as distinguished from the standard form?

Mr. LORD. I do not know what he was referring to, unless he is referring to a detailed statement such as that of the Continental Bank of New York, or the Corn Exchange Bank. Under each item it would have in words of one syllable just what it owed to the depositors, and under capital stock it would show what the stockholders had in it. Unless he means that, I do not know what he was talking about.

Mr. PECORA. You were the executive officer of both the Group and of the largest bank in the Group, were you not, at this time, in June 1931?

Mr. LORD. Yes.

Mr. PECORA. And as the executive officer of the Group it was part of your duty to get up or to assist in the preparation of a statement showing the condition of the Group and its units, was it not?

Mr. LORD. It was part of my duty to look at the statement and see that it was satisfactory; yes. But to get it up, no.

Mr. PECORA. In order to see that it was satisfactory you had to know what the report contained?

Mr. LORD. Yes.

Mr. PECORA. And that would lead to a consideration by you of the form of the report, would it not?

Mr. Lord. I would say so; yes.

Mr. Pecora. You were interested as the executive head of the Group in anything that was put out in behalf of the Group to enlighten the public with respect to the position of the Group and of the unit banks, were you not?

Mr. Lord. Yes, I was, naturally.

Mr. Pecora. And you knew that this public relations committee was functioning for the precise purpose or the specific purpose of keeping the public informed, among other things, concerning the activities, the condition, the progress of the Group and its unit banks?

Mr. Lord. Yes.

Mr. Pecora. That was not an unimportant detail, was it?

Mr. Lord. No.

Mr. Pecora. It is important to any bank to maintain friendly relations with the public, is it not?

Mr. Lord. Indeed it is.

Mr. Pecora. And to impress upon the public any facts that would tend to reflect the sound condition of the bank?

Mr. Lord. Correct, sir. Mr. Kanzler tells me that the so-called "understandable form" is the formal statement that you may not recall or that you may recall having seen gotten out by the Corn Exchange Bank.

Mr. Pecora. Published generally in theater programs and newspapers, and one that employs verbiage which is not technical?

Mr. Lord. Not technical. It was at that time certainly quite an unusual form used by banks.

Mr. Pecora. It was called an understandable form because it was considered that the lay public, unfamiliar with the technique of banking, would be able to understand a report in that form better than it could understand the standard form of report. Is not that so?

Mr. Lord. Yes. Part of the lay public—I mean, the man on the street. It said in words of one syllable what each item meant, so that you might say a child of 12 could understand it. It was quite the unusual form used by banks.

Mr. Pecora. It is a commendable form where it is sought to inform the public accurately and understandingly?

Mr. Lord. I think it is.

Mr. Pecora. Do you know the reason why in June 1931, it was considered inadvisable to issue a report or statement in behalf of the Group not in its understandable form, or the form that the public would more easily understand and appreciate the significance of, but in the standard form which was not quite so capable of being understood by the public?

Mr. Lord. Mr. Pecora, I cannot answer that question. My assumption would be that the reason they preferred to use the standard form was that no other bank in Detroit used the so-called understandable form, nor had we in any of our banks or in any of our Group statements ever used it, and it meant a change from the ordinary form.

Mr. Pecora. Had not the Group at any time issued a report in the so-called understandable form?

Mr. Lord. Not to my knowledge.

Mr. Pecora. Had it published anything embodying a statement of the condition in the so-called understandable form?

Mr. LORD. Not to my recollection, Mr. Pecora.

Mr. PECORA. Had it ever considered doing so?

Mr. LORD. I think it considered it at that time, apparently, from that memorandum.

Mr. PECORA. I am going to read something further from that memorandum to you——

Senator COUZENS. While you are on that—this section 3 of the memorandum says that it was felt that the understandable form was devised at a time when conditions warranted such a statement. When was that understandable form first devised?

Mr. LORD. I have no idea, Senator. I think that about that time the Corn Exchange Bank started to use it in New York, but so far as I know it was the only New York bank that was using it.

Mr. PECORA. They used it, according to my recollection, long prior to 1931.

Senator COUZENS. That is true; and I know of no other bank that did use it, as a matter of fact.

Mr. LORD. I do not know when they started it.

The CHAIRMAN. What does he mean when he refers to conditions—certain conditions that would not warrant it?

Mr. LORD. I suppose, the disturbed conditions existent in Detroit at that time. It was just after the Detroit bank took over the American State Bank. They took it over in the spring of 1931. I believe that memorandum was written in June 1931?

Mr. PECORA. The meeting was held on June 25, 1931.

Mr. LORD. Yes. I suppose that is what they were referring to.

Mr. PECORA. Let me read further from these minutes of the meeting of the Public Relations Committee held on June 25, 1931 [reading]:

The posters will have the same heading as was shown on the understandable form. The consolidated statement is to be published in the newspapers as soon as it is ready, which will be 3 or 4 days after the regular statements are published and will appear in the following papers: Detroit papers, Chicago Journal of Commerce, a New York daily paper, and perhaps the Wall Street Journal, as well as the various local papers in the State where units are located. Mr. Walsh is to handle this.

It was thought particularly wise at this time to stress the names of the various units together with the cities in which they are located, so that the public will know exactly what banks are in our group in the various cities.

At a later date, it may be advisable to use the understandable consolidated statement form, and it was decided to hold it in reserve for the time being.

Mr. Paterson brought out the point of using the phrase "total resources in excess of $500,000,000", and it was decided to leave this off for the time being, inasmuch as we do not have much leeway with respect to this figure. Later on, if we find there is a wider margin, this phrase can be used.

The consolidated statement in the standard form will be made available for poster frames to be used at all branches and units, and a reprint of this poster will be made for distribution to units for passing out by their tellers and officers to customers. In this connection, Mr. Scrymgeour stated that an explanatory letter had been prepared by him, which was now in Mr. Walsh's hands for his approval, and which would educate the tellers and junior officers in the handling of passing out the consolidated statement.

(4) Mr. Covington stated that a bank call was received by the National Bank of Commerce at 2 o'clock in the afternoon and the same night the statement was published in the papers, and the printed statement was available the next afternoon and was mailed out to important commercial and savings customers that night. Many of the units are not as prompt in the publishing of their statements and Mr. Berry was delegated to write each unit, by special delivery, not later than tomorrow, that they should have their statements

published within 24 hours after the call is received and that the printed statements should be available for mailing out to important savings and commercial customers the following night.

I will omit the reading of paragraph 5 because it is relatively unimportant. (Continuing reading:)

(6) A discussion followed regarding the strength of group banking as contrasted to individual banks, and it was suggested that we should take advantage of this as much as possible in a subtle way, pointing out that very few, if any, group banks had failed and were ranked with our strongest institutions, whereas individual banks have been dropping by the wayside in small towns throughout the country. This is especially true in the lower Michigan district, where within the past month bank failures occurred in Pontiac, Birmingham, Royal Oak and other small towns.

(7) Mr. Covington reported that at a meeting of the clearing house on bank advertising, it was decided that nothing would be done at this time. It seems that the Detroit bankers group have been anxious to do some advertising on account of the difficulties they have encountered recently.

(8) Mr. Scrymgeour reported that the marketing plan has received enthusiastic reception and that Fortune Magazine as well as several others are asking for stories.

What was the marketing plan referred to?

Mr. Lord. Mr. Pecora, I think Colonel Walsh could answer that. It came within his scope. I could not give you the details of it.

Mr. Pecora. Can you give us some enlightenment on it?

Mr. Lord. My recollection is that he showed a series of charts which had been prepared either by him or for him showing the various products and the percentage of products in different districts. It was a plan designed to help our own customers in the development of their business. I have not the details of that, but that was the general purpose of it.

Senator Couzens. Do you know what this memorandum means when it says——

The posters will have the same heading as was shown on the understandable form?

Mr. Lord. I do not know what that meant, because I do not recall either form.

Mr. Pecora. Now I want to read to you from committee's exhibit no. 36, received in evidence yesterday, which consists of the printed annual report of the Guardian Detroit Union Group for the year ending December 31, 1930. At page 9 of that printed report appears the following statement—and this report is signed by you——

Mr. Lord. Signed by Mr. Blair or by me?

Mr. Pecora. Signed by you as president and by Mr. Blair as chairman of the board. I am reading from page 9 thereof. [Reading]:

Under the requirements of the national and State banking laws at least two examinations of the banks and trust companies are made each year by the national or State bank examiners and by the directors of the respective institutions. In addition, the group company has a well-organized and highly efficient examining department headed by B. K. Paterson, vice president of the group company, formerly chief national bank examiner of the Seventh Federal Reserve District. This examining organization, entirely independent of any unit, responsible only to the group company, makes two thorough and complete examinations each year of all units of the group. Their reports, which are gone over in detail not only with the directors of the respective units but also with the group company management, indicate a thoroughly satisfactory condition of all banks and trust companies in the group.

Senator COUZENS. Were those annual reports put in the mail?

Mr. LORD. In 1930?

Senator COUZENS. Yes.

Mr. LORD. Yes; I should think so.

Mr. PECORA. Now, as bearing upon the testimony you have given regarding the use of certificates of deposit to offset bills payable, let me read to you what purports to be a photostatic copy of a letter addressed by Mr. Bert K. Paterson, under date of January 2, 1931, to Mr. John L. Proctor, Deputy Controller of the Currency, Washington, D.C. [reading]:

DEAR JOHN: The question has been raised here as to the proper method in which to report in public statements and reports of condition certificates of deposits of other banks held by the Guardian Detroit Bank. As an example of what I mean, on December 31 the Guardian Detroit Bank held an aggregate of $2,000,000 represented by certificates of deposit in other banks. Query: Should the Guardian Detroit Bank report these certificates as receivables or as cash due from banks in the proper segregation of the latter? The question has also been raised whether or not the certificates are drawn on demand or with a specific due date. If that were done, would it in your opinion have any bearing on the above subject? It runs in my mind that there has been a pretty well defined position taken by the Comptroller's Office in the past that such certificates of deposit should be reported as receivable. At least, before I left the Government service that was the way I personally held whenever the subject was discussed. Further, in substantiation of my position, I also held that the issuing bank must necessarily show the liability as borrowed money. Briefly, it is an answer to the old query of "When is a C.D. not a C.D.?" When it is borrowed money.

I would appreciate it if you would not take this up in an official way, treating it as a personal matter, but draw on the Department's position in formulating your reply.

With kind personal regards, I am,

Sincerely.

I will also read to you what purports to be a photostatic copy of a letter sent by Mr. Proctor in reply to this letter of Mr. Paterson, as follows [reading]:

JOHN L. PROCTOR,
THE TREASURY,
Washington, January 5, 1931.

Mr. B. K. PATERSON,
Care of Guardian Detroit Union Group,
Detroit, Mich.

DEAR BERT: I have your letter of January 2 with query as to the proper method in which to report certificates of deposit of other banks held by the Guardian Detroit Bank. The position taken by the Controller's Office is that time certificates of deposit of other banks held by a national bank should be treated as bills receivable, and demand certificates should be treated as due from banks, in the same manner as open accounts with banks are treated. As to whether or not the issuing bank should show the liability as borrowed money would depend upon the circumstances in each case; but my personal opinion is that if the issuing bank requested an advance of funds against a certificate of deposit, it would be borrowed money. I have known of cases where a bank issued certificates of deposit at the request of the payee that made the deposit in order to place its funds out at larger rates of interest.

Trusting this will give you the information you desire, and with kind personal regards, I am,

Sincerely,

JOHN L. PROCTOR.

Was this correspondence ever brought to your notice?

Mr. LORD. I do not recall it, Mr. Pecora.

Mr. PECORA. Was the information contained therein ever brought to your notice by Mr. Paterson?

Mr. LORD. I do not recall it.

Mr. PECORA. Did the group or any of the unit banks follow the advices contained in Mr. Proctor's letter to Mr. Paterson that I have just read to you?

Mr. LORD. I do not know, sir.

Mr. PECORA. You do not know?

Mr. LORD. I assume they did. I do not know. I have not the details as to the transaction.

Mr. PECORA. Do you know whether or not newspaper copy was furnished to newspapers by the Group or any of its unit banks?

Mr. LORD. Yes; I think it was.

Mr. PECORA. Were they published as news items instead of as advertising items?

Mr. LORD. I do not know how they were handled. That went through Mr. Scrymgeour.

Mr. PECORA. I show you what purports to be a photostatic copy of an intragroup memorandum dated January 8, 1931, addressed by Mr. Frank M. Brandon, who was president of the City National Bank & Trust Co. of Niles, to Mr. James L. Walsh. Will you look at it and tell me if you recognize it as being a true and correct copy of such a memorandum?

Mr. LORD. That is Mr. Brandon's signature.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of Intra-group memorandum dated Jan. 8, 1931, from F. M. Brandon to James L. Walsh, was received in evidence, marked "Committee Exhibit No. 47, Dec. 21, 1933.")

Mr. PECORA. This memorandum has been received in evidence and marked "Committee's Exhibit No. 47." It is on the letterhead of the Guardian Detroit Union Group, Inc., and reads as follows. (Reading:)

COMMITTEE EXHIBIT NO. 47

GUARDIAN DETROIT UNION GROUP, INC., INTRAGROUP MEMORANDUM

JANUARY 8, 1931.

To Mr. James L. Walsh, vice president Guardian Detroit Union Group, Inc.

From Mr. F. M. Brandon, President City National Bank & Trust Co., Niles, Mich.

DEAR COLONEL: Your letter of January 6 enclosing copy of a suggested newspaper article is received and the copy was delivered to the local editor. However, the fact that we had a slight decrease in commercial deposits between the September 24 and December 31 call necessitated some change so that the article was finally prepared and at the suggestion of the editor was published as an interview with the writer in order to divest the item from the appearance of advertising, and we are enclosing herewith a copy of the clipping.

Yours very truly,

F. M. BRANDON, *President*.

What appeared as a news item was really advertising matter, was it not?

Mr. LORD. I never saw the article.

Mr. PECORA. Have you any doubt of the fact from this letter?

Mr. LORD. Yes; I have.

Mr. PECORA. What creates that doubt?

Mr. Lord. The fact that the editor wanted it as an interview. I suppose it was a gossipy article. I don't know what was in it. I cannot answer your question without knowing what was in it.

Mr. Pecora. The statement is contained in Mr. Brandon's letter to Colonel Walsh, which I have just read to you—

However, the fact that we had a slight decrease in commercial deposits between the September 24 and December 31 call necessitated some change so that the article was finally prepared.

And so forth.

Do you know what kind of a change was made?

Mr. Lord. I do not know a thing about the article. I never saw it.

Mr. Pecora. Was the change, in your opinion, designed to cloud or obscure the fact of the decrease in deposits between the two dates mentioned?

Mr. Lord. I would not think so, from that.

Mr. Pecora. I will ask Colonel Walsh about that when I call him to the stand.

Now, in the published reports the unit banks of course showed whatever Government bonds they had in their portfolios at the time they were making the reports?

Mr. Lord. Always; yes.

Mr. Pecora. Did the reports also show whether or not any of those Government bonds were pledged?

Mr. Lord. I think the so-called "legal" published reports that every bank that I know of publishes in addition to their condensed statement, always show the bonds pledged as security for postal savings. It was not, however, customary for banks to show any segregation of their Government or municipal bonds as security for either Government or municipal deposits.

Mr. Pecora. As a rule such bonds were pledged by banks as security for Government or municipal or State deposits?

Mr. Lord. Not as a rule.

Mr. Pecora. Such deposits were required to be protected by a pledge of security?

Mr. Lord. In the case of Postal Savings it was required by law, as I recall it, that they must be secured by the deposit of Government or selected municipal bonds.

Mr. Pecora. In the case of deposits of public funds, were not such deposits usually covered by pledges of Government securities?

Mr. Lord. No, sir; they were not.

Senator Couzens. Did you secure any other deposits besides those of the Government's?

Mr. Lord. I think in some cases, in the units, in the local municipality, they pledged municipal or other securities.

Senator Couzens. I meant, governmental agencies or their subdivisions. Do you secure in any manner a private deposit?

Mr. Lord. Not to my knowledge, sir.

Mr. Pecora. Was it customary from time to time for any of the Group banks to request a depositor or customer to make a temporary deposit in order to enable the bank to show an increase in deposits for a certain date or on a certain date?

Mr. Lord. I could not say definitely on that, because I do not know. I think, answering your question in another way, it may

have happened frequently that in the solicitation of deposits certain deposits were secured which it was known at the time would only be in for a limited period.

The CHAIRMAN. The subcommittee will now take a recess until 2 o'clock.

(Whereupon, at 1 p.m., a recess was taken until 2 p.m., Thursday, Dec. 21, 1933.)

AFTER RECESS

(The subcommittee resumed at 2 p.m. on the expiration of the recess.)

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

TESTIMONY OF ROBERT O. LORD, DETROIT, MICH.—Resumed

Mr. PECORA. Will the committee reporter read the last question and answer of the morning session?

The committee reporter (Mr. Hart). The last question and answer of the morning session were as follows:

> Mr. PECORA. Mr. Lord, was it customary from time to time for any of the Group banks to request a depositor or customer to make a temporary deposit in order to enable the bank to show an increase in deposits for a certain date or on a certain date?
>
> Mr. LORD. I could not say definitely on that, Mr. Pecora, because I don't know. I think, answering your question in another way, it may have happened frequently that in the solicitation of deposits certain deposits were secured which it was known at the time would only be in for a limited period.

Mr. PECORA. What was specifically the purpose of obtaining such deposits, if it was known in advance that they would be available for only a short period?

Mr. LORD. For the benefit of the earnings of the institution, to increase the deposits generally.

Mr. PECORA. You mean for the purpose of enabling the institutions to put out a public statement——

Mr. LORD. Not necessarily, because it was done all through the year. We took temporary deposits in the middle of the year, or any other time. In other words, there was enough rotation of temporary money to keep your deposit situation in shape.

Mr. PECORA. It was considered desirable at various periods of the year—say, for instance, the periods when calls would be expected from the Comptroller of the Currency for condition reports—to build up the deposits of the banks.

Mr. LORD. Yes.

Mr. PECORA. Even though they were built up only for those temporary periods.

Mr. LORD. Yes.

Mr. PECORA. And that was done to enable the banks in their reports made in response to the call, to show a better condition on the surface than they actually enjoyed.

Mr. LORD. I would not say that, Mr. Pecora, a better condition than they enjoyed, because they did enjoy that condition. It is a better condition than a low point in the deposits.

Mr. PECORA. That is what I mean.

Mr. LORD. But the condition was a true condition whether the deposits be temporary or permanent.

Mr. PECORA. It was a true condition insofar as it existed on the date for which it was reported. But it was known to the officers, when special deposits were procued for these temporary periods, that that condition was not going to be the condition within a few days after the reports were made for the given date.

Mr. LORD. It might have been known as regards that particular deposit, but there may have been other deposits coming in to take its place.

Mr. PECORA. I think you testified in substance that in those instances where resort was had to a so-called "C.D.", or certificate of deposit in order to enable a unit bank to offset a bill payable, that the deposit was actually made.

Mr. LORD. So far as I know, it was.

Mr. PECORA. You were the president of the Gurdian Detroit Bank on December 31, 1931, were you not?

Mr. LORD. I was.

Mr. PECORA. I show you what purports to be a certificate of deposit dated December 31, or rather a photostatic copy of a certificate of deposit, dated December 31, 1931. Will you kindly look at it and tell me if you recognize it to be a true and correct copy of such certificate of deposit as was used?

Mr. LORD. I assume it was. I never saw this before.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, copy of certificate of deposit, Dec. 31, 1931, was received in evidence, marked "Committee Exhibit No. 48", Dec. 21, 1933, and the same was later read into the record by Mr. Pecora.)

Mr. PECORA. The exhibit received in evidence and marked "Committee's Exhibit No. 48", of this date reads as follows [reading]:

MAIN OFFICE, UNION INDUSTRIAL BANK,
Flint, Mich.

December 31, 1931. Serial no. 53. Guardian Detroit Bank, Detroit, Mich., has deposited in this bank (Union Industrial) $600,000 payable to the order of themselves upon the return of this certificate properly endorsed.

(Signed) EDWARD HOLMES,
Assistant Cashier.

On the back thereof appears this endorsement in handwriting [reading]:

This C.D. withdrawn January 2, 1932, and we credit Guardian Detroit Bank.

What does this indicate, Mr. Lord?

Mr. LORD. It indicates that the certificate was withdrawn, the funds withdrawn, on January 2.

Mr. PECORA. Why were they so withdrawn?

Mr. LORD. I do not know. Probably the Guardian Detroit Bank needed the money, or had use for it.

Mr. PECORA. Is this one of those occasions where a certificate of deposit was issued to offset bills payable on the books of the Union Industrial Bank?

Mr. LORD. It would seem so.

Mr. PECORA. The Union Industrial Bank carried an account with the Guardian Detroit Bank, did it not, at that time?

Mr. LORD. So far as I know; yes.

Mr. PECORA. I show you what purport to be photostatic reproductions of certain ledger sheets of the Guardian Detroit Bank with relation to the account with the Union Industrial Trust & Savings Bank of Flint, Mich., including the date of this certificate of deposit which has been received in evidence as Committee's exhibit no. 48. Will you look at it and see if you can identify those photostatic reproductions as true and correct copies of the ledger accounts of the bank?

Mr. LORD. I could not identify it, except that it has the Guardian Detroit Bank insignia on the top of it. I assume it is correct. I have no reason to question it.

Mr. PECORA. I offer those sheets in evidence.

The CHAIRMAN. Let them be admitted.

(The document referred to, photostatic copies of ledger sheets of the account of the Union Industrial Trust & Savings Bank, Flint, Mich., on the books of the Guardian Detroit Bank, were received in evidence and marked "Committee's Exhibit No. 49", Dec. 21, 1933, and portions thereof were subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The photostatic copies of these ledger sheets of the account of the Union Industrial Trust & Savings Bank of Flint, Mich., on the books of the Guardian Detroit Bank contain absolutely no entry respecting this certificate of deposit represented by committee Exhibit No. 48, do they?

Mr. LORD. A certificate of deposit issued by the Union Industrial Trust & Savings Bank would not show on this ledger sheet.

Mr. PECORA. Why not?

Mr. LORD. Why should it? That is a separate piece of paper. That is not a credit on the books on the account so far as I know.

Mr. PECORA. Why shouldn't it be?

Mr. LORD. I do not know what happened to the proceeds of that certificate.

Mr. PECORA. What does this certificate of deposit indicate?

Mr. LORD. It indicates that the Guardian Detroit Bank had on deposit in the Union Industrial Trust & Savings Bank $600,000.

Mr. PECORA. Yes. Would not that appear in the ledger account carried on the books of the Guardian Detroit Bank?

Mr. LORD. Frankly, I do not know. I am not a bookkeeper. I do not know how a bank would carry its certificates, whether they are carried on a ledger sheet where the regular balances are carried, or carried in some other way. That is beyond my activities in the bank, and I do not know how it would be carried.

Senator COUZENS. Who, in your organization, would know, Mr. Lord?

Mr. LORD. I do not know who the bookkeepers were.

Senator COUZENS. Would the knowledge be confined to a bookkeeper, or would not some officer know whether the bookkeeper was doing his duty?

Mr. LORD. I suppose some technical officer would know it.

Senator COUZENS. Would you know what technical officer would know it?

Mr. LORD. I suppose Mr. Burns would know it. He had charge of the operations of the bank.

Senator COUZENS. What was his title?

Mr. LORD. His title was cashier.

Senator ADAMS. Senator, in a country bank an officer knows all those things.

Mr. LORD. Yes; because he does all the work.

Senator ADAMS. Even when he does not.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a report of conditions of the Union Industrial Trust & Savings Bank of Flint, Mich., as of the close of business on December 31, 1931, which corresponds to the date of the certificate of deposit which has been marked in evidence as "Committee's Exhibit No. 48." Will you look at this photostatic copy of that report and tell us if you recognize it to be a true and correct copy of the report of condition made by the bank as of December 31, 1931?

Mr. LORD. Mr. Pecora I have no way of identifying it. I can identify Mr. Wilkins 'signature on here, but I never saw the report before.

Mr. PECORA. Have you any doubt that it is a true and correct copy of the report?

Mr. LORD. I would not question your word on it.

Mr. PECORA. Subject to any correction or confirmation you want to make on that, I offer that in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, report of condition, Union Industrial Trust & Savings Bank, Flint, Mich., Dec. 31, 1931, was received in evidence, marked "Committee Exhibit No. 50", Dec. 21, 1933, and is not reproduced here for the reasons given below.)

Mr. PECORA. On account of the voluminous character of the exhibit I do not think it is necessary to spread it in full on the minutes, but I do want to read into the record the following item appearing under schedule H, entitled "Bills Payable and Rediscounts", item No. 2 in that schedule [reading]:

> Certificates of deposit issued to other banks and trust companies for money borrowed: None.

Now, Mr. Lord, would not that seem to be an incorrect statement, in view of the issuance of this certificate of deposit that has been marked "Committee's Exhibit No. 48"?

Mr. LORD. It would, sir.

Mr. PECORA. This report appears to be signed by Mr. H. R. Wilkins, and was sworn to by him on January 8, 1932. What was originally known as the Guardian Detroit Bank, of which you were president, eventually became, by merger or consolidation with the National Bank of Commerce, the Guardian National Bank of Commerce.

Mr. LORD. That is correct.

Mr. PECORA. And you continued as president of the bank under that designation or name.

Mr. LORD. I did.

Mr. Pecora. I have before me what purports to be a photostatic copy of the report of the condition of the Guardian National Bank of Commerce of Detroit, made to the Comptroller of the Currency as of November 9, 1932. That was the last examination that was made of that bank prior to the holiday, was it not?

Mr. Lord. I think it was, Mr. Pecora.

Mr. Pecora. It appears therefrom that as of November 9, 1932, the bank had United States bonds pledged to an amount of $11,021,-144.25, and United States bonds unpledged to the amount of $3,596,145. Would that accord generally with your recollection of the fact, Mr. Lord?

Mr. Lord. I would think so, Mr. Pecora. I would not have the definite figures in my mind.

Mr. Pecora. That would indicate that on November 9, 1932, approximately 75 percent of the United States Government's securities owned by the bank were pledged, would it not?

Mr. Lord. I would say so; yes, sir.

Mr. Pecora. In the report that was issued in behalf of that bank as of December 31, 1932, was the pledging of those United States Government bonds shown?

Mr. Lord. No, sir. I say "no", in the condensed report. In the legal report, I assume it was.

Mr. Pecora. When you say it was not shown in the condensed report, what do you mean by the condensed report?

Mr. Lord. I mean the newspaper ad that the bank pays for when it publishes its report.

Mr. Pecora. That is the report that was advertised for public information.

Mr. Lord. They were both advertised for public information. There were two forms that all banks used, one a condensed report, and the other a report required, as I understand it, under the rulings or law, which goes into detail as to certain items that are not segregated in the condensed report of any bank.

Mr. Pecora. The condensed report showed the ownership of these Government securities by the bank, as though they were unpledged.

Mr. Lord. No; I would not say that. It showed that those bonds were among the assets of the bank.

Mr. Pecora. And no mention was made of the fact that they were pledged to the extent of about 75 percent thereof?

Mr. Lord. No mention made of it.

Mr. Pecora. Does not that operate to give an inaccurate picture to one reading that condensed report?

Mr. Lord. I think it does, but it is the customary form of publication by banks of their condensed statements, Mr. Pecora. I think it is a mistake that banks should have published their statements in that way.

Mr. Pecora. Do you know what prompted the bank to do that?

Mr. Lord. I suppose many years of custom with many of the banks.

Senator Couzens. I see that the banks have changed that in some respects.

Mr. Lord. They have; and I think it is a very good thing, Senator.

Mr. PECORA. From time to time customers of the Guardian Detroit Bank, subsequently called the Guardian National Bank of Commerce, turned over to the bank securities belonging to such customers, and they were turned over to the bank for safekeeping purposes, for the account of the customers, were they not?

Mr. LORD. That is customary. I have no details as to whether we actually had some at any given period. That is customary in any bank.

Mr. PECORA. What was the custom followed by the bank with respect to whether or not it included in its reports to the public the value of those securities as among its resources?

Mr. LORD. Held in safe-keeping?

Mr. PECORA. Held in safe-keeping.

Mr. LORD. I do not think they were ever included, Mr. Pecora. Certainly they should not have been.

Mr. PECORA. I show you what purports to be a printed copy of the annual report for 1929 issued by the Guardian Detroit Union Group, Inc., over your signature as its president. Will you look at it and tell me if you recognize it to be a true and correct copy of such annual report so issued?

Mr. LORD. Yes; I would say so.

Mr. PECORA. I ask that it be marked in evidence, but not spread on the minutes because of its voluminous size.

The CHAIRMAN. Let that be done.

(The document referred to, Annual Report, 1929, Guardian Detroit Union Group, Inc., was received in evidence, marked " Committee Exhibit No. 51 ", Dec. 21, 1933, and the same is not reproduced here for the reasons stated above.)

Mr. PECORA. I want to call your attention to page 9 of this printed report which has been marked in evidence as " Committee's Exhibit No. 51 ", under the caption Aggregate Resources and Liabilities of Banks and Trust Companies Affiliated with Guardian Detroit Union Group, Inc., as of Dec. 31, 1929. Do you see, on the asset side, under the caption Resources an item reading: " Customers' securities, safe keeping, $12,594,330.16 ", and an offsetting item on the right-hand side, under the caption of Liabilities reading the same way?

Mr. LORD. Yes, sir.

Mr. PECORA. Did you know that that was there?

Mr. LORD. Well, I did not recall that it was; no.

Mr. PECORA. Do you know why this statement of aggregate resources of unit banks, as a consolidated statement, showed that item?

Mr. LORD. I suppose because that consolidated statement was made up by adding the items of the various separate unit banks. That item is along the lines of just what I was speaking about this morning in connection with the Niles bank, where they took out of each side the trust assets. In other words, some of the banks in the group, as I recall it, following an old fashioned custom, had included in their statements the safe keeping bonds, which, when you include them in the total resource figures, unduly inflate the totals.

Mr. PECORA. It builds up the picture of the bank's size.

Mr. LORD. It builds up the picture, and I assume it is in that particular statement, because that statement was made up by adding all the separate statements. I know of no other reason why it should

have been in there, and personally I do not think it means anything in the statement and should be left out of all statements.

Mr. PECORA. Was it not put in this statement, and in the various statements of the unit banks, in order to build up the picture of the bank's size?

Mr. LORD. I do not think so.

Mr. PECORA. What other purpose could it serve than that?

Mr. LORD. Mr. Pecora, it certainly was not put into that statement for that purpose. Whether it was put into the separate unit statements in their published statements for that purpose, that is something I do not know, because they prepared those separate unit statements and sent them in, and I had nothing to do with that.

Mr. PECORA. If they sent them in to your group, they were sent in for the information of the officers of the group.

Mr. LORD. Yes; but they were prepared by the——

Mr. PECORA. You had an opportunity of correcting that practice if you thought it was a wrong practice.

Mr. LORD. I think that was corrected in later years.

Mr. PECORA. In the case of the unit banks?

Mr. LORD. I believe it was. Maybe I am mistaken.

Mr. PECORA. I think you are.

Mr. LORD. Then I am mistaken. Personally I never liked it in a statement.

Mr. PECORA. I have before me committee's exhibit no. 36, which is the printed annual report of the Group for the year 1930, and it shows separately for each of the unit banks, a statement of condition at the close of business December 31, 1930. I observe that this item of customer's bonds held for safe keeping appears in the annual statement for 1930 of the Union Industrial Trust & Savings Bank of Flint; in the statement of the Grand Rapids Trust Co. of Grand Rapids; in the statement of the First National Trust and Savings Bank of Port Huron; and in the statement of the Trenton State Bank, Trenton, Mich. I understand that practice was continued in several of the unit banks thereafter.

Mr. LORD. Mr. Pecora, if we had wanted to build up the total resources by including that, we would have done it with every bank that had any safe-keeping bonds. The mere fact that it appeared in some was probably because it was their custom to publish their statements with those items in there, on both sides of the balance sheet.

Mr. PECORA. Under date of May 5, 1931, it appears that a letter was written to you by Mr. E. R. Morton, vice president of the City National Bank and Trust Co. of Battle Creek, one of your unit banks, a photostatic copy of which I now show you. Will you look at it and tell me if you can identify it as a true and correct copy of such a letter?

Mr. LORD. Yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, May 5, 1931, Morton to Lord, was received in evidence, marked "Committee's Exhibit No. 52", Dec. 21, 1933, and the same was subsequently read into the record by Mr. Pecora.)

Mr. Pecora. The letter received and marked "Committee's Exhibit No. 52" is on the letterhead of the City National Bank & Trust Co. of Battle Creek, dated May 5, 1930, and is as follows [reading]:

Robert O. Lord,
President Guardian Detroit Union Group, Inc.,
Detroit, Mich.

Dear Mr. Lord: Some amusement has been furnished here over a period of a few months by reason of advertisements of the old Merchants National Bank & Trust Co., in which they use the phrase "combined resources, $28,000,000." The total footings of the bank run from $17,000,000 to $19,000,000, and, of course, the supposition is that in their trust department they have some $8,000,000 to $10,000,000. What comes directly from this is not particularly favorable; but, of course, it is only in a few instances. The public generally may be impressed with the magnitude of business. It would seem to me just as reasonable to make some approximate figures on the contents of your safety-deposit boxes and add that to your banking resources as to use the resources of your trust department.

Last week Mr. Bryan, of your examining force, wanted to know why we did not ask the Comptroller's office for a ruling. I noticed the other day, however, in the advertisement of your unit in Port Huron that they incorporated the resources of their trust department, thereby advertising the combined resources. Personally I do not feel that I am enough concerned about it to go very far. Therefore I am merely calling it to your attention for such consideration as you may care to give it.

Very truly yours,

E. R. Morton, *Vice President.*

Mr. Lord. Might I say in that connection that the old Merchants National Bank was not a Guardian unit.

Mr. Pecora. Might I also remind you in that same connection that Mr. Morton in his letter to you tells you that in the advertisement of your unit in Port Huron they had incorporated the resources of their trust department, thereby advertising the combined resources.

Mr. Lord. They did, sir. I think you will find also, Mr. Pecora, that in the 1931 annual report such items were entirely eliminated in the consolidated statement.

Mr. Pecora. Were they entirely eliminated from the separate statements of the bank units?

Mr. Lord. So far as I know. For quite a period the State banking authorities in Michigan rather favored the publication of those figures. I never did favor it personally.

Mr. Pecora. Do you mean to say that the State Banking Commissioner favored the making up of reports of banks in a manner that included in the resources of the bank the accounts that they held in trust?

Mr. Lord. In safe keeping.

Mr. Pecora. Or in safe keeping?

Mr. Lord. That is my understanding, sir, and I never could understand it. I never liked it.

Mr. Pecora. Is that still the rule there?

Mr. Lord. I don't know what the rule is now.

The Chairman. As a matter of fact, funds that were held simply for safe keeping were not resources of the bank at all?

Mr. Lord. Senator Fletcher, the items referred to there were securities that were held subject to safe-keeping, not dollars and cents.

The Chairman. Not owned by the bank? They were not owned by the bank?

Mr. LORD. No, sir, indeed they were not. And it showed not only on the asset side but an offsetting item on the liability side, which was just a wash item.

Mr. PECORA. But they did not have any part in the bank's resources?

Mr. LORD. Absolutely none.

Mr. PECORA. And should not have been shown at all?

Mr. LORD. Absolutely no. You cannot argue with me about it. I am for it a hundred percent. They should have been out.

Senator ADAMS. Mr. Lord, it would perhaps also follow that banks ought not to accept that kind of items for safe-keeping, because it does add a contingent liability under certain conditions?

Mr. LORD. Senator, banks have to do that service for their customers. Frequently a man may have a loan with a substantial amount of collateral. He may pay the loan by check on some distant point, or when he is away, and asks the bank to hold that collateral in safe-keeping. Now, every bank which does that and does it properly issues a separate safe-keeping receipt identifying in detail those securities. They have to do that.

Senator ADAMS. They assume a certain liability?

Mr. LORD. They assume a certain liability, and it is a liability that the banks do not like to assume, but it is a part of the service that the banks have been asked to give for many years. A banker would much rather have a man take his collateral down and put it in his own safe-deposit box.

Mr. PECORA. Now, I show you what purports to be a photostatic reproduction of a letter addressed to Mr. Scott D. Carpenter, vice president of the National Bank of Commerce, Boulevard Branch, Detroit, by Mr. James L. Walsh, vice president of the Guardian Detroit Bank, dated August 4, 1931. Will you look at it and tell me if you recognize it as a true and correct copy of such a letter sent by Mr. Walsh to Mr. Carpenter?

Mr. LORD. I don't recall ever having seen it, but I do not question the authenticity of it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Photostat of letter from James L. Walsh to Scott D. Carpenter, dated Aug. 4, 1931, was designated "Committee Exhibit No. 53, Dec. 21, 1933", and appears immediately following, where read by Mr. Pecora.)

Mr. PECORA. Letter marked "Committee's Exhibit No. 53" is as follows [reading]:

AUGUST 4, 1931.

DEAR SCOTT: The president of one of the Group units, in answer to my letter of July 10 regarding releasing news items to the press, wrote back as follows:

"I would appreciate the courtesy if you would advise me just what kind of news items you will want and in approximately what kind of shape they should be presented, in view of the general dangers resulting from publicity originating from banks, et cetera."

Our answer to him was substantially as follows, and it occurred to me that a copy of it might clear up certain questions in your mind and also in the mind of A. C. Voss, whom you have appointed to handle these matters for your bank.

"One of the big things we are striving to do is to convince the public of the proven ability of the men who are behind the Group. We cannot do this by writing eulogistic stories, but we can by showing the affiliations of our

leaders, the successes of our leaders, and, when there is no possibility of a kick-back, the views of our leaders. We have succeeded in obtaining a great deal of advantageous publicity from newspapers, financial, business, and trade publications, during the past 6 months, and we can safely say that we have carefully avoided anything of a controversial nature, and only news that might bring about a favorable and often an active good will for the Group has been disseminated.

"We believe that anything that will show the strength, the liquidity, the able management, the resources, and the wide services of the Group is advantageous. Resources, age, investment in United States Governments, no bills payable, satisfactory earnings, increase in one quarter's earnings against the previous quarter, increases in customers, increases in savings deposits, economies of operation and management—all of these things are distinctly valuable at this time. We have had many stories written around these facts, and we expect to have many more.

"Promotions, since they give an oportunity to tell of a man's record, are good, not only for the general public, for they point to ability and recognition of ability, but for the personnel, inasmuch as where one man can go ahead others may. Such stories improve the morale. Human stories, not maudlin, are good. They show that the institution, despite its size, is essentially a human organization.

"We have endeavored to have stories appear that would point out that the group and each of its units recognizes that it and they will prosper in direct relation to the prosperity of the communities and the customers they serve. An anniversary, either of the institution or of a member of the institution, should provide an opportunity to point to the human sense, growth, strength, willingness to serve.

"There are stories of this type in every unit of the group. Many of them can be rewritten here and sent to the other units of the group, where, if they could not be used as written, they might show the way for similar stories to be written that would provide good local material.

"Primarily, so far as the publicity activities of your bank are concerned, we are more anxious to see you get favorable publicity in your papers and to send us copies in order that we can show your results to other units of the group. It is much more difficult for us to obtain items in the metropolitan press in Detroit; and few, if any, of the items you sent us so far as the bank is concerned, would be suitable for Detroit papers. However, they might be for the smaller papers in other group cities. We want to act as a clearing house here for these publicity items, and it was for that reason that we asked you to send us your publicity."

Cordially yours.

This letter would indicate sort of a general publicity policy on the part of the Group and its unit banks, would it not?

Mr. LORD. Well, I would say so; yes. I am not a publicity expert.

Mr. PECORA. Was Mr. Walsh?

Mr. LORD. I assume he knew more about it than I did.

Mr. PECORA. And for that reason the publicity work was confided to his care?

Mr. LORD. To a great extent; yes, sir.

Mr. PECORA. Now, in cases where C.D.'S were resorted to to offset bills payable, were the bills-payable items restored after the reports had been made in compliance with calls for a condition report?

Mr. LORD. Mr. Pecora, I would not have that information.

Mr. PECORA. Who would have?

Mr. LORD. I would assume that in some cases the unit bank required the funds and borrowed them later.

Mr. PECORA. Who would have that information?

Mr. LORD. I suppose the only way to get that information would be to get it right off the books. I don't know any other way. It is quite possible those bills-payable items were restored at the first of the year when the Guardian Detroit Bank found it necessary to use the funds that had been deposited.

Mr. PECORA. Now, referring to Committee's Exhibit No. 51 of this date, which is the printed annual report of the Guardian Detroit Union Group, Inc., as of December 31, 1929, isn't it a fact that in that report there was included the resources, and so forth, of 7 banks that were actually not units of the Group as of December 31, 1929, the 7 banks in question being Grand Rapids National Bank, Grand Rapids Trust Co., the Peoples' National Bank, First National Bank & Trust Co. of Kalamazoo, Capital National Bank of Lansing, City National Bank & Trust Co. of Niles, and the Second National Bank of Saginaw?

Mr. LORD. Mr. Pecora, I did not prepare the statements. I cannot answer for that statement. I would assume they were included.

Mr. PECORA. What is that?

Mr. LORD. I did not prepare the statement. I cannot answer it. I assume they were included, because the published statements are here.

Mr. PECORA. Yes; they are included in that annual report, aren't they?

Mr. LORD. They are included on a separate page; yes.

Mr. PECORA. Showing combined deposits in those seven banks, or resources rather, aggregating $63,552,000; isn't that so?

Mr. LORD. Aggregating what?

Mr. PECORA. $63,552,000. That is the combined resources of those seven banks.

Mr. LORD. It does not show separately in that report.

Mr. PECORA. I know, but we have totaled them up and that is the figure. Why were those 7 banks and their total resources included in the annual report issued by the Group as of December 31, 1929, when, as a matter of fact, those 7 banks were not units of the Group at that time?

Mr. LORD. Mr. Pecora, I assume they were units of the Group on January 28. I haven't the details.

Mr. PECORA. Of what year?

Mr. LORD. Of 1930.

Mr. PECORA. Why should they be included then?

Mr. LORD. Because that is the date of the report.

Mr. PECORA. In the report as of December 31, 1929?

Mr. LORD. No; the date of the letter to the stockholders is January 28, 1930.

Mr. PECORA. But the report which was forwarded to the stockholders under cover of that letter was the report as of December 31, 1929.

Mr. LORD. Published statements were as of that date.

Mr. PECORA. Yes.

Mr. LORD. The report itself and the contents of the report is as of January 28, the date of the letter to the stockholders.

Mr. PECORA. Well now, the report that was sent to the stockholders with that letter of January 1930 is the report of the Group or in behalf of the Group as of December 31, 1929, isn't it?

Mr. LORD. On the published statements only.

Mr. PECORA. Well, that exhibit you have in your hand is one of those reports publicly issued, sent to each stockholder, is it not?

Mr. LORD. You mean this whole report?

Mr. PECORA. Yes.

Mr. LORD. Yes; it is sent to each stockholder under date of January 28, 1930.

Mr. PECORA. That is the date it was sent, but it purports to be the report of the Group and its units as of December 31, 1929, doesn't it?

Mr. LORD. No, I don't agree with you. The date of the letter to the stockholders is January 28, 1930.

Mr. PECORA. What is the report that accompanied the letter?

Mr. LORD. That accompanies the letter?

Mr. PECORA. Yes.

Mr. LORD. A report of the condition of these separate banks as of December 31, 1929.

Mr. PECORA. And the separate banks referred to are supposed to be the unit banks of the group as of December 31, 1929, are they not?

Mr. LORD. No, sir.

Mr. PECORA. Point out in that report anything which says to the contrary.

Mr. LORD. The letter is dated January 28, 1930, and it says the Group owns all or practically all of the stock of certain banks, and I would take it that it meant as of January 28, 1930.

Mr. PECORA. Will you let me have that exhibit?

(Mr. Lord handed exhibit 51 to Mr. Pecora.)

Mr. LORD. It does not say the date, either December 31 or January 28. I would not know how to construe it any other way, Mr. Pecora. Perhaps I am mistaken in this.

The CHAIRMAN. When did these seven banks come in?

Mr. LORD. I don't recall. I assume before January 28, or they would not have been included in that report.

Mr. PECORA. Now, I call your attention to page 9 of exhibit 51, entitled "Aggregate resources and liabilities of banks and trust companies affiliated with Guardian Detroit Union Group, Inc., as of December 31, 1929." Are not the resources of these seven banks included in that consolidated statement?

Mr. LORD. Mr. Pecora, I would construe that to mean aggregate resources and liabilities of banks and trust companies as of December 31, 1929, now, January 28, affiliated with the Guardian Detroit Union Group.

Mr. PECORA. Why didn't you say that in the letter, then?

Mr. LORD. Well, it may have been poorly expressed.

Mr. PECORA. Was it poorly expressed in order to create the impression through the issuance of the annual report of the Group as of December 31, 1929?

Mr. LORD. It was not, sir. There was not any idea of deception in the thing at all. It never occurred to me. I never heard that point brought up at any time.

Mr. PECORA. Well, perhaps nobody reading that report would suspect from anything in the report that those seven banks whose total resources were included in the condensed statement shown on page 9 were not as a matter of fact units of the Group on December 31, 1929. Does that occur to you?

Mr. LORD. It did not.

Mr. PECORA. Is there any statement anywhere in the report that specifically says that those seven banks were not units of the Group on December 31, 1929?

Mr. LORD. May I have that question again?

The SHORTHAND REPORTER (Mr. Randolph reading):

Is there any statement anywhere in the report that specifically says that those seven banks were not units of the Group on December 31, 1929?

Mr. LORD. No. But the mere date of the letter to my mind, Mr. Pecora, brings the stockholder down to January 28, 1930.

Mr. PECORA. On January 28, 1920 a letter was sent to the stockholders of the Group accompanying what purported to be the annual report for the Group as of December 31, 1929—isn't that so?

Mr. LORD. Only to the extent of the published figures of the units that were then in the Group on January 28, 1930.

Mr. PECORA. Why, the report itself is captioned "Annual Report 1929", is it not, on the cover page?

Mr. LORD. I realize that, the letter to the stockholders is dated January 28, 1930.

Mr. PECORA. Do you know when those seven banks were actually taken into the group?

Mr. LORD. I don't know. I suppose the contract had been signed before that or it would not have been included.

Mr. PECORA. Well now, I have before me what purports to be a photostatic copy of the minute book of the board of directors of the Guardian Detroit Union Group, Inc., and according to this copy, at a regular meeting of the board of directors of the Group held on January 28, 1930, it appears that the acquisition of those seven banks became effective on that date, namely, January 28, 1930. Have you any information or knowledge to the contrary?

Mr. LORD. I do not know the date, Mr. Pecora.

Mr. PECORA. Now, I want to ask you generally, Mr. Lord, if, at the time any of these unit banks were acquired by the Group, an examination was made in behalf of the group of the condition of such banks?

Mr. LORD. Yes, indeed, sir.

Mr. PECORA. And reports of such examinations made to the Group?

Mr. LORD. My recollection; yes, sir.

Mr. PECORA. What gentlemen made those examinations in behalf of the Group?

Mr. LORD. I think almost exclusively, except in the case of the Highland Park institutions, Mr. Patterson and his organization.

Mr. PECORA. There were included in his organization certain gentlemen who up to that time or up to a short time prior thereto were national bank examiners under Mr. Patterson when he was chief bank examiner for the seventh district?

Mr. LORD. I believe so.

Mr. PECORA. And the name of one of those gentlemen was Bryan?

Mr. LORD. Bryan and Penningroth.

Mr. PECORA. Hopkins, too? Do you know Mr. Hopkins?

Mr. LORD. He was never in Mr. Patterson's organization.

Mr. PECORA. Was he previously a national bank examiner?

Mr. LORD. Mr. Hopkins?

Mr. PECORA. Yes.

Mr. LORD. Yes, indeed.

Mr. Pecora. Did any of these examiners for the Group report in the case of any of these units a condition that caused them to recommend against the acquisition of the bank by the Group?

Mr. Lord. I don't recall of any.

Mr. Pecora. Would you say that there were no such recommendations unfavorable to acquisition made?

Mr. Lord. I don't recall at all.

Mr. Pecora. You mean you don't recall whether there were or not?

Mr. Lord. I don't recall of any unfavorable recommendations.

Mr. Pecora. Do you recall whether or not Mr. Bryan made a report against the acquisition of the National Bank of Ionia because of its condition?

Mr. Lord. I don't recall Mr. Bryan's reporting at all.

Mr. Pecora. Do you recall that he made a similar unfavorable report in the case of the Grand Rapids Bank?

Mr. Lord. I do not.

Mr. Pecora. Do you think you might have your recollection refreshed on that subject by conferring with Mr. Patterson, who is here present?

Mr. Lord. If Mr. Patterson remembers, I will be glad to ask him.

(Mr. Patterson came forward and conferred with Mr. Lord.)

Mr. Lord. Mr. Patterson says that he does not recall whether Mr. Bryan made any recommendations against the Grand Rapids, but he does recall that Mr. Bryan had some criticism of the Ionia situation until certain correction was made in the situation to the extent of approximately $15,000. Personally, I do not recall the incident at all.

Mr. Pecora. What was the reason for the acquisition of the organization known as Keane, Higbie & Co. by the Group?

Mr. Lord. Mr. Pecora, I had nothing to do with that. I cannot answer that. It was acquired by the Union Commerce Corporation.

Mr. Pecora. What was the business of Keane, Higbie & Co.?

Mr. Lord. Investment securities.

Mr. Pecora. It was a brokerage office, wasn't it; stock brokerage office or firm?

Mr. Lord. It was not only a stock brokerage office but dealers in bonds, municipal bonds, and other securities.

Mr. Pecora. Did the acquisition of that company or organization result eventually in a loss to the Group?

Mr. Lord. Very substantially.

Mr. Pecora. Of how much?

Mr. Lord. I haven't the figures.

Mr. Pecora. Approximately.

Mr. Lord. I would say several millions.

Senator Adams. You were a director of Keane, Higbie?

Mr. Lord. After it was acquired.

Senator Adams. After it was acquired?

Mr. Lord. Yes.

Mr. Pecora. How was that eventual loss brought about?

Mr. Lord. Depreciation in their inventory.

Mr. Pecora. What service did they render to the Group or any of the units in the Group?

Mr. Lord. The same that any brokerage house would render.

Mr. PECORA. Just brokerage service?

Mr. LORD. Just brokerage service: contacts with some of their customers, helped in securing business for the banks and trust companies.

Mr. PECORA. How did that organization come to cause such a substantial loss to the Group if they simply operated as a brokerage office?

Mr. LORD. No; they were investment dealers. They carried a substantial inventory, too.

Mr. PECORA. Was that what brought about the loss principally?

Mr. LORD. Principally; yes, sir.

Mr. PECORA. Would it not have been possible for the Group to have obtained the benefit of brokerage services in the usual way and through the payment of usual commissions to brokers, rather than by acquiring the business of a brokerage firm?

Mr. LORD. I think it would. If you ask my opinion, I think it was a mistake to ever acquire a brokerage office.

Mr. PECORA. Why was it acquired?

Mr. LORD. I did not acquire it. I cannot answer that.

Mr. PECORA. Why did the Group at the time of the merger with the National Commerce Corporation take it in?

Mr. LORD. Because it was already acquired with the Group?

Mr. PECORA. Took in the bad with the good, is that it?

Mr. LORD. Yes, sir.

Mr. PECORA. Did not seek to eliminate the bad?

Mr. LORD. Could not be eliminated immediately.

The CHAIRMAN. Were they a corporation or a partnership?

Mr. LORD. They were a corporation, as I recall it.

Senator COUZENS. Was Mr. Carl Higbie active in Keane, Higbie & Co. at the time?

Mr. LORD. Yes; I think so, Senator.

Senator COUZENS. Was he also a member of the board of directors of the purchasing group?

Mr. LORD. I do not know whether he was a member of the Union Commerce Corporation board or not.

Mr. PECORA. Now, did the various unit banks in the group from time to time make loans, and that frequently, to officers of the group and directors of the group, which were secured in whole or in part by the capital stock of the group?

Mr. LORD. I cannot answer that except for the Guardian National Bank of Commerce, or rather for the Guardian Detroit Bank.

Mr. PECORA. Well, answer it for that bank.

Mr. LORD. For that bank, I think the record will show that outside of substantial directors or officers who were directors the loans to other officers were almost nil. In fact, we had a rule in the Guardian Detroit Bank that an officer could not borrow from the bank.

Mr. PECORA. Well, how about the bank making loans to officers of the other unit banks?

Mr. LORD. That was done occasionally, as loans were made to any outsider.

Mr. PECORA. Don't you know whether or not these unit banks carried in their loan accounts large amounts of stock of the group as collateral for loans?

Mr. LORD. I think some of them carried some.

Mr. PECORA. Do you know what the peak was of the number of shares of group stock carried by the unit banks?

Mr. LORD. By officers?

Mr. PECORA. No; generally.

Mr. LORD. I think that report of examination, as I recall it, showed 141,000 shares.

Mr. PECORA. Was that the peak?

Mr. LORD. I don't know, Mr. Pecora. I would not know.

Mr. PECORA. Now, the national bank examiners criticized that frequently, did they not?

Mr. LORD. They did.

Mr. PECORA. What action if any was taken to correct that situation?

Mr. LORD. Mr. Pecora, every effort was made on the part of the operating officers in the bank to eliminate any of the stock, and a great deal of the stock that was among the collateral was stock which was taken as additional security after an original loan had been made, where the borrower had come to the end of his collateral and where all he had left was Guardian Group stock, and it was taken as supporting whatever security it might. I think you will find very few loans in the last 2 years of operation, original loans, made on Group stock.

Mr. PECORA. How about the prior years?

Mr. LORD. Let me say this, that a great deal of the Guardian stock came into the loan portfolio of the Guardian National Bank of Commerce through a consolidation; first, between the Bank of Detroit and the Guardian Detroit Bank, and, second, a consolidation between the Guardian Detroit Bank and the National Bank of Commerce. For instance, an officer of the National Bank of Commerce may have owned some stock of the National Bank of Commerce; he may have had a loan on that stock at the Bank of Detroit. In the merger and consolidation the National Bank of Commerce was therefore exchanged for Group stock, so that that was the only collateral he had; or it must have constituted most of the collateral for his loan. The result was that he had Group stock whereas he had started with stock of an entirely different institution.

Mr. PECORA. In the national bank examiner's report of the condition of the National Guardian Bank of Commerce as of November 9, 1932, there are listed loans made to officers and employees of the bank, both direct and indirect loans——

Mr. LORD. Would you mind reading the total of those loans?

Mr. PECORA. I am trying to find a statement of the total.

Mr. LORD. I think it is $154,000 odd.

Mr. PECORA. Oh, no.

Mr. LORD. You mean, the directors, too? I meant officers and directors.

Mr. PECORA. I meant officers and employees.

Mr. LORD. Have you got it?

Mr. PECORA. Yes. Suppose I read it to you.

Mr. LORD. May I see that sheet? Well, you read it first, if you like.

Mr. PECORA (reading):

Fred T. Murphy, chairman, direct loan, $606,250.
Robert O. Lord, president, indirect loan, $1,000.

Mr. LORD. Since paid.
Mr. PECORA (continuing reading):

Henry E. Bodman, chairman of the governing committee, $4,500, indirect loan.
Ernest Kanzler, chairman of the executive committee, $382,190.52, direct loan; $350,998.55, indirect.
Henry H. Sanger, vice chairman, direct loan, $59,000; indirect loan, $20,397.24.
George B. Judson, indirect loan, $14,215.84.
Harry G. Covington, $2,224. I am leaving off the cents.
Elbert S. Burns, direct loan, $18,171.
Fred J. Boyer, direct loan, $1,421.
Scott Carpenter, $6,700.
Frank P. Evans, Jr., vice president, nothing.
H. S. Finkenstaedt, direct loan, $107,000.
G. R. Harris, $3,065.76, direct loan; $14,869, indirect loan.
W. P. Jacobs, indirect loan, $24,426.
Charles A. Kanter, vice president, direct loan, $48,990; indirect loan, $9,684.
Samuel R. Kingston, direct loan, $61,000; indirect loan, $2,094.
Charles A. Kinney, indirect loan, $86,000.
Alvan Macauley, Jr., nothing.
Charles N. Maycock, vice president, direct loan, $7,696; indirect, $326.
Phelps Newberry, direct loan, $579,970; indirect loan, $5,000.
Lewis C. Van Anken, vice president, direct loan, $14,724.
Albert C. Voss, vice president, direct loan, $12,703.
James L. Walsh, vice president, indirect loan, $1,000.
Robert C. Wandel, vice president, indirect loan, $14,579.
W. E. Blakeley, assistant vice president, direct loan, $535.
S. A. Clark, assistant vice president, indirect loan, $27,878.
W. Ross Laing, assistant vice president, direct loan, $9,549.
Charles F. Sawyer, assistant vice president, $531.
A. D. Freydl, assistant cashier, direct loan, $1,203.
George L. Greenup, assistant cashier, $1,306.
E. T. McConnell, assistant cashier, $1,235, direct loan.
Gordon T. Murray, assistant cashier, $640.
Harry C. Schaefer, assistant cashier, indirect loan, $18,961.
G. A. Wellensick, auditor, direct loan, $3,645.
Leo E. Kangas, assistant auditor, direct loan, $675.
Other employees, main office, 49 borrowing, $69,000.
Uptown office, five borrowing, $8,654.

Mr. LORD. Mr. Pecora, I told you I could best answer the question in regard to the Guardian Detroit Bank itself. May I have that same statement and comment on it, that same list? Of the officers who were not directors, those original Guardian Detroit Bank men—of the officers who were not directors, they were as follows:

Frank P. Evans, Jr., no loan.
Alvan Macauley, Jr., no loan.
James J. O'Shea, no loan.
Don F. Valley, no loan.
James L. Walsh, no loan——

Mr. PECORA. There is an indirect loan to Walsh.
Mr. LORD. I am speaking of direct loans. That indirect loan of Colonel Walsh has since been paid, and was an endorsement, such as my own loan of $1,000 on a note in the old Bank of Detroit.

E. A. Norman, no loan.
Norman Rudolph, no loan.
Lester E. Zubrigg, no loan.

I think that constitutes all of the old Guardian men.

Mr. PECORA. I only included in my recital from this report the loans made—not the loans that were not made.

Mr. LORD. What I was trying to convey, Mr. Pecora, was that those were loans that were acquired through the consolidation and not new loans after the consolidation. The figure that I mentioned of $154,000 was the figure shown in this examiner's report under the item of loans to officers, not directors and employees (omit duplications). That shows liability as payer $154,256, and liability as endorser or guarantor, $118,996. That was the figure that I was using.

Senator ADAMS. Those larger items, like Fred Murphy's and Newberry's came out of the——

Mr. LORD. They were directors' loans and they were almost invariably secured by outside stock. For instance, Murphy's loan was very largely secured by stock in a New York bank. Another loan was secured by stock of the Packard Motor Car Co., and another loan by stock of the Universal Credit Corporation. Our policy was, so far as possible, to make no loans on our own group stock. Much of the collateral was taken as additional security and much of it came in in exchange of old bank stock for group stock.

Mr. PECORA. Have you available at the present time a copy of the report made by the national bank examiner as of June 16, 1932?

Mr. LORD. No; I have not.

Mr. PECORA. According to a copy that I have of the report of June 1932 made by the national bank examiner the total loans made and outstanding on May 16, 1932, to directors of the bank aggregated $4,416,451.66 by way of direct loans, and $3,338,910.75 by way of indirect loans. Does that correspond to your general knowledge and belief, Mr. Lord?

Mr. LORD. I would not have any reason to question it at all, if it was in the report.

The CHAIRMAN. Do you know what proportion of those loans was paid?

Mr. LORD. Senator, if I may have a few minutes to look up a memorandum I made last summer I can give you some very interesting data on the condition of those loans up to late summer. I have no up-to-date data, because the receiver does not give us any information on the Guardian National Bank. Would it interest you to have me read some of the data to show the present condition?

The CHAIRMAN. I think so.

Mr. LORD. Or the condition as of last summer. Personally I think it is quite a remarkable showing, in view of the conditions in Detroit.

Wendell Anderson, at the time of the November report, showed an indirect obligation of $414,000. I have no information as to what was done with it. I know the security was marketable—general mortgage bonds.

George R. Andrews showed an indirect obligation of $1,000, which I understand has since been paid.

Henry E. Bodman showed an indirect obligation of $4,500, which has been paid.

The next one I have no information on. I think the indebtedness has been paid.

Walter O. Briggs had no debt.

Harry C. Bulkley had reduced his debt. He had a direct loan of $21,000.

Howard E. Coffin had a debt of $71,000. According to the information I get from his office, that was paid up entirely.

George R. Cooke had an indirect debt of $4,455. That was paid.

Harry G. Covington had a direct obligation of $2,224.27. That has been paid.

Lyman J. Craig I have no information about.

Ward A. Detwiler had an indirect obligation of $45,000.

Harry C. Earhart had no debt.

G. Ogden Ellis had an indirect obligation of $1,000 that has been paid.

Henry T. Ewald had a direct obligation of $156,976.38 and an indirect obligation of $72,952. That has been paid—both of them.

George R. Fink I have no information about.

William A. Froher I have no information about.

Burch Foraker owed direct $20,726. That was paid.

Edsel B. Ford, no debt.

John H. French, no debt.

L. W. Goodenough, no debt.

Leslie H. Green, direct debt of $163,029. I know that has been reduced. How much, I do not know.

Sherwin A. Hill owed $49,826.67. That was paid.

Charles H. Hodges, no debt.

James Inglis, $40,645. I think that has been cleaned up entirely.

George B. Judson I have no information on.

Albert Kahn, $19,240 direct; $17,353 indirect. That has been paid.

C. A. Kanter, no reduction.

Ernest Kanzler had an indirect debt of $33,061.84. That has been reduced. I have no information as to that.

Jerome Keane, no reduction.

E. C. Kern, no information.

S. R. Kingston, no information.

Dwight B. Lee owed in November $75,917. Paid in full.

C. B. Longley, $1,370 direct debt; $75 indirect. I think it has been paid.

I myself had only an indirect debt on the endorsement of an officer of the Bank of Detroit, of $1,000, which has since been paid.

Alvan Macauley, no debt.

W. Ledyard Mitchell had a direct loan of $28,860.21, and an indirect of $155,251. Most of that item I understand has been paid.

Charles S. Mott, indirect, $330,000. I think that has been pretty well cleaned up.

C. Hayward Murphy, $100,000. I have no information as to that.

Phelps Newberry—I beg your pardon. These figures that I am giving you are the reductions made in the loans. For instance, Phelps Newberry's loan which appears on the books at $579,000 has been reduced to $399,000 by the middle of summer.

Hal. H. Smith had paid his loan in full.

Oscar W. Smith, no debts.

John W. Toolin, no debts.

Charles B. Warren paid off $115,000 direct and $15,000 odd, indirect. In other words, there were very substantial reductions in all these loans.

The CHAIRMAN. Those were all directors?

Mr. LORD. Yes, sir.

Mr. PECORA. Are you through with that?

Mr. LORD. Yes.

Mr. PECORA. Mr. Lord, the Guardian National Bank and the National Bank of Commerce consolidated as of December 31, 1931, did they not?

Mr. LORD. I believe so; yes.

Mr. PECORA. The resultant institution known as the Guardian National Bank of Commerce had a board of directors of 61 members, did it not, in the year 1932?

Mr. LORD. I do not recall, sir.

Mr. PECORA. It was a very large number?

Mr. LORD. It was too large.

Mr. PECORA. During the year 1932 was it the policy of the board to meet regularly?

Mr. LORD. Yes, indeed, sir.

Mr. PECORA. Was it?

Mr. LORD. Oh, yes.

Mr. PECORA. How frequently?

Mr. LORD. I don't know. Perhaps Colonel Walsh remembers.

Mr. WALSH. I do not know, in 1932; but in 1931, twice a month.

Mr. PECORA. I am speaking of 1932.

Mr. LORD. At least once a month, and maybe oftener whenever a quorum was available.

Mr. PECORA. Is it not a fact that during the year 1932 it was the policy of the guiding spirits of the bank not to hold regular board meetings of its entire board of directors, in view of the publicity and reaction that they feared from such a large body of men?

Mr. LORD. No, sir. They had to hold them.

The CHAIRMAN. What number constituted a quorum?

Mr. LORD. I do not recall. I do not know whether a majority, or just what does constitute a quorum.

Mr. PECORA. Do you recall that after the examination which was made by the national bank examiner, of the Guardian National Bank of Commerce, on May 16, 1932, a meeting was held of members of the governing committee of the bank with the bank examiners?

Mr. LORD. I do not know whether it was the governing committee of the bank or what committee it was.

Mr. PECORA. Do you recall that at that meeting which was held during the week of June 11, which was just a few days after the completion of the examination of the bank by the Comptroller of the Currency, the examiners reported to the governing committee what their examination disclosed with respect to slow and doubtful assets?

Mr. LORD. I remember vaguely that there is a report, but I do not have the figures in mind at the present time.

Mr. PECORA. Is your recollection only a vague one that such a subject was brought up in the discussion?

Mr. LORD. No; the subject was certainly brought up, but as regards the figures——

Mr. PECORA. Your recollection is vague as regards the figures?

Mr. LORD. Yes, sir.

Mr. PECORA. According to my information, the examiners indicated to the members of the governing committee that their examination, completed only a few days before, disclosed slow assets of $22,442,427 and doubtful assets of $11,982,427. Do you recall the discussion that followed with regard to that?

Mr. LORD. Not in detail; no.

Mr. PECORA. Generally what do you recall about it?

Mr. LORD. Mr. Pecora, I am a little vague about that particular meeting. The meeting that I recall particularly was in December; but I could not tell you all that transpired at that meeting. I do not even remember who was there.

Mr. PECORA. Do you recall that at that same meeting there was brought up for discussion the subject of so-called excessive loans made by the bank to the Guardian Detroit Co., of $4,945,000?

Mr. LORD. I do.

Mr. PECORA. What was said about that loan?

Mr. LORD. As I recall it, it was spoken of as an excessive loan, although it was on the books as a repurchase agreement.

Mr. PECORA. How did that account originate?

Mr. LORD. When the Guardian Detroit Bank was a separate institution and before its consolidation, it was a State bank. In the years prior to the date that you are speaking of the Guardian Detroit Bank would carry on a repurchase agreement with the Guardian Detroit Co., certain high grade marketable bonds at the cost price to the Guardian Detroit Co. That was done by the bank in order to give the bank an investment of its funds, and the bank received an interest coupon rate on those bonds. For instance, if the Guardian Detroit Co. had purchased the bonds at 90, whether they were worth on the market 95 or par, they were put in the repurchase agreement at 90. The bank received, if it was a 5 percent bond, a 5 percent coupon rate. That practice of carrying a repurchase agreement was somewhat of a common practice in banks in the way of carrying securities for dealers. It was recognized by the State banking authorities as being entirely proper.

Mr. PECORA. Was it so recognized by the national bank examiners?

Mr. LORD. May I explain that later? I will bring it out clearly. At the time of the consolidation of the Guardian Detroit Bank and the National Bank of Commerce there was, as I recall it, somewhere in the neighborhood of $4,000,000 on this repurchase agreement in the Guardian Detroit Bank——

Mr. PECORA. $4,945,000, was it not?

Mr. LORD. Just a minute, Mr. Pecora. There was also in the National Bank of Commerce a repurchase agreement with the Guardian Detroit Co., so that the figure which you have there, the consolidated figure of the two repurchase agreements, when the banks were put together—that repurchase agreement was discussed with the bank examiners, the Federal examiners, at the time of the consolidation of the two banks into the Guardian National Bank of Commerce, and the examiners spoke of it as an excess loan, although in the State situation it was looked upon as a repurchase agreement and not as a loan.

The securities were gone over and the national bank authorities accepted that as an admissible asset into the Guardian National Bank of Commerce. They did say this, however, that they wanted it liquidated down to a point where it would come within the loaning limit of the Guardian National Bank of Commerce, just as rapidly as possible. I think the record will show that the liquidation in the year following was approximately $1,000,000. In other words, it was being liquidated just as fast as it could be liquidated. The market for securities was very much depressed and it was very hard to sell bonds of any character.

The CHAIRMAN. Was the Guardian Detroit Co. an affiliate of the group?

Mr. LORD. The Guardian Detroit Co. was an affiliate of the group. That loan, if you call it a loan—I would call it a repurchase agreement—we have always argued with the national bank authorities that it was an admissible asset and accepted as such. The national bank authorities knew all about it and they admitted it as an asset in the Guardian National Bank at the time of the consolidation.

Mr. PECORA. At the time of this conference of the national bank examiners in June 1932 with the members of the governing committee of the bank's board, the discussion also included the condition of the other banks in the group system, did it not?

Mr. LORD. There were some comments made by Mr. Walker, I believe it was.

Mr. PECORA. Mr. Walker was one of the examiners?

Mr. LORD. He was there at the meeting.

Mr. PECORA. What comment did he make?

Mr. LORD. The remark was to the effect that we had picked the rotten banks of the State. That was immediately taken up, and I think he withdrew the statement, as did Mr. Leyburn also.

Mr. PECORA. Was any reference made by any of the members of the governing committee in reply to any observations made by the examiners that the members of the governing committee of the bank were basing great hopes for an improvement of the condition of the group and its unit banks through the enactment by Congress of the branch banking bill?

Mr. LORD. I do not recall that discussion. They may have.

Mr. PECORA. Did the directors of the group entertain, as a matter of fact, any such hopes?

Mr. LORD. I think the directors of the group all hoped that there would be legislation permitting state-wide branch banking.

Mr. PECORA. How did the directors expect that such legislation would improve the condition of the group and its unit banks?

Mr. LORD. It would enable the group to consolidate into a single organization, and those banks which had excess capital structure as against their deposit liabilities would of course be taken in and would help those whose capital structure was not so large.

Mr. PECORA. Were the officersr and directors of the group doing anything to promote such an enactment?

Mr. LORD. I was always in favor of it and spoke of it, as I recall it, at the hearing on the Glass bill back 2 years ago. I spoke of it in any public talks.

The CHAIRMAN. Do the laws of Michigan permit state-wide branch banking?

Mr. LORD. No, sir; only branch banking in the municipality in which the bank is located; not state-wide.

Mr. PECORA. Following the making of the December 1932 examination of the bank by the national bank examiners, did the Comptroller of the Currency send to your board a letter containing certain criticisms?

Mr. LORD. You mean the November state examination?

Mr. PECORA. Yes; based upon the November examination.

Mr. LORD. Yes.

Mr. PECORA. Which was completed, as I understand it, on December 7?

Mr. LORD. They did.

Mr. PECORA. Could you produce that letter?

Mr. LORD. I have not got it.

Mr. PECORA. Are you familiar in substance with the contents of the letter?

Mr. LORD. I recall it in a general way. He criticized the repurchase agreement. He criticized the amount of Guardian stock, as I remember it. He criticized the loan to the Union Co.

Mr. PECORA. Well, in words or substance do you recall this language in that letter, which I understand was dated January 28, 1933, and was addressed by the Comptroller of the Currency to the Board of Directors of the bank [reading]:

Despite the efforts that apparently have been put forth to improve the bank's condition through the elimination of highly unsatisfactory assets, the aggregate of criticized assets shows an increase over the previous report, the increase being particularly noticeable in the doubtful items, which in themselves practically equal the bank's entire capital structure exclusive of the bond depreciation of over $2,000,000. Your special attention is called to the lines of the Guardian Detroit Co. agents, $173,685.62; Guardian Detroit Co., $4,621,787; and Union Co., $1,074,097.42, as set out and commented upon by the examiner on page 4–117, of which $2,077,783 is classed doubtful. Moreover, the line to the Guardian Detroit Co. represented by a repurchase agreement on the part of the company, of which $1,180,000 is classed doubtful, is an excessive loan.

These extensions of credit are particularly objectionable and unsatisfactory and forecast heavy losses and they should receive such action as will protect the bank's interest so far as possible. Please bear in mind that the directors are liable for loss on an excessive loan. It seems hardly reasonable to believe that you are not aware of the fact that a repurchase agreement is equivalent to a loan, the excessive feature of which should be corrected without delay.

Do you recall that?

Mr. LORD. I recall that letter; yes.

Senator COUZENS. Was that ever presented to your board of directors?

Mr. LORD. It was presented to the board of directors after the holiday. The time of the next board meeting was set for, as I believe, the 14th, or something, but it came right in the bank holiday and all the turmoil that took place.

Senator COUZENS. You say it was presented to the board of directors at the very next meeting after its receipt?

Mr. LORD. That is my recollection. The next meeting that was held.

Mr. Pecora. Now do you recall this further statement in the letter of the Comptroller of the Currency to your board of directors:

Attention is also called to the special schedules on page 9-A and continuing sheets which show the extent to which loans have been granted on stock of the Guardian Detroit Union Group, which is to all intents and purposes equivalent to loaning on the bank's own stock, as the group owns all of the bank's stock except the qualifying shares of the directors.

Mr. Lord. Yes; I recall that.

Mr. Pecora. That was not the first time this kind of criticism had been made, was it?

Mr. Lord. It is the first time I recall any written criticism from the Comptroller's office. I think we discussed with the examiners the advisability of getting it out, though.

Mr. Pecora. Had there not been criticism expressed to you or to the board by the Comptroller's representatives on prior occasions on this score?

Mr. Lord. Possibly in personal conversation. They knew our attitude. We were trying to get it out just as fast as we could.

Mr. Pecora. Well, to what extent had any success been attained in that respect?

Mr. Lord. I cannot give it to you, Mr. Pecora, but I know the attitude of all of the officers.

Mr. Pecora. Do you recall this further statement in that letter of the Comptroller of the Currency of January 28 last [continuing reading]:

The extent to which the other real-estate account has increased and in all probability will continue to increase should be a source of considerable concern to you, since the present investment in these undesirable bank assets aggregates $5,196,237 and apparently you are unable to dispose of any of the parcels. Present indications forecast heavy losses in the other real-estate account.

Mr. Lord. Mr. Pecora, you could not have moved any real estate in Detroit at that time. Every effort in the world was being made to move the real estate.

Mr. Pecora. Can you tell why such heavy commitments were made in real estate investments?

Mr. Lord. They were made in banks that finally came into the Guardian Detroit Bank. I cannot tell you. The Guardian Detroit Bank did not itself as a matter of policy loan on real estate. Most of our mortgages came in from the Bank of Detroit and the National Bank of Commerce. And we showed, as I recall it, about $17,000,000 of mortgages.

Mr. Pecora. Let me read further to you from the letter of the Comptroller of last January [continuing reading]:

With the existing situation in your bank and condition of the assets and bond depreciation, the bank is in no condition to pay dividends. Every dollar of available earnings would appear to be needed to effect limitation of developing losses and to provide for further probable defaults in the bond account.

Please give careful consideration to the examiner's report at your next board meeting and thereafter advise this office of the action taken and progress made in remedying each of the matters mentioned herein and also mentioned and commented upon by the examiner on pages 11 and 11-F, giving names and amounts as to collections and adjustments effected in the doubtful assets, the action taken in connection with the Guardian Detroit Co. agents, Guardian Detroit Co., and the Union Co. lines mentioned above and the large concentration of stock of the Guardian Detroit Union group and state whether the

excessive loan referred to above has been reduced to the legal limit, forwarding copies of your communication to Chief National Bank Examiner A. P. Layburn * * *

Do you recall that?

Mr. LORD. Yes, sir.

Mr. PECORA. Was any action taken thereon?

Mr. LORD. There was no possibility of action because the bank was in the hands of the holiday, and then in the hands of the conservator, and then in the hands of the receiver before any action could be taken.

Mr. PECORA. Well, now, the specific items of criticism referred to in this letter of the Comptroller of the Currency were based on fact, were they not?

Mr. LORD. Yes. But may I state in connection with that repurchase agreement? They recognized it and took that in as an admissible asset, and the bank was doing everything possible to reduce it.

The CHAIRMAN. Did they have many foreclosures?

Mr. LORD. There were many foreclosures in Detroit, Senator I do not know the figures.

The CHAIRMAN. I mean in your institution?

Mr. LORD. Yes, I suppose we did. I do not have the figures.

Mr. PECORA. Do you know what became of the original letter of the Comptroller of the Currency to which I have referred in the last few questions?

Mr. LORD. I do not. I supposed it was in the bank's files.

Mr. PECORA. This letter was signed by Gibbs Lyons, Deputy Comptroller. Do you recall that?

Mr. LORD. I think that is the fact; yes.

The CHAIRMAN. Mr. Lord, some reference has been made to temporary deposits. What would you call a temporary deposit?

Mr. LORD. I do not know what you call a temporary deposit. A few weeks or a few days.

The CHAIRMAN. Usually a few days or a few weeks?

Mr. LORD. Well, I would call a few days quite a temporary deposit. A 30-day deposit I would call more or less temporary; yes. It is pretty hard to describe "temporary."

The CHAIRMAN. How were they designated? Say a depositor came in with $100,000?

Mr. LORD. It is put in the checking account or a certificate of deposit; just whatever the customer wanted.

Mr. PECORA. They were not entered in any manner different from any other deposit, were they?

Mr. LORD. No.

The CHAIRMAN. Say that a man made a temporary deposit and said he wanted to make this deposit for 3 days; if the bank went under in the meantime he was just an ordinary depositor?

Mr. LORD. He took his chance on it just like any long-time depositor.

Mr. PECORA. Well, frequently large depositors in your bank, like the Ford Motor Co., were asked to make a temporary deposit?

Mr. LORD. I should say occasionally; not frequently.

Mr. PECORA. Well, how frequently?

Mr. LORD. I do not recall.

Mr. PECORA. Well, do the best you can, in your recollection.

Mr. Lord. Once or twice a year, maybe.

Mr. Pecora. Once or twice a year?

Mr. Lord. May I say this? The Ford Motor Co. deposits in their active account were very temporary deposits in any event. They would deposit, as I recall it, on the 20th of the month to pay for their purchases. By the first of the following month most of that money would have been checked out.

Mr. Pecora. Yes, but once or twice a year, in any event, a request would be made to a depositor like the Ford Motor Company to make what was asked for as a temporary deposit for a few days?

Mr. Lord. I doubt if the Ford Motor Co. was asked once or twice a year for a temporary deposit.

Mr. Pecora. Well, I simply took your estimate.

Mr. Lord. I do not know how often it was. Maybe once every two years.

Mr. Pecora. Well, whenever it was, it was done for what purpose?

Mr. Lord. To increase our deposits. Take us out of bills payable.

Senator Couzens. As you look back over the situation now, Mr. Lord, would you say it was a good thing to consolidate the National Bank of Commerce and the Guardian Detroit Bank and the Bank of Detroit?

Mr. Lord. Senator, that is a very hard question to answer. I would say it was not a bad thing to have done it. I am assuming from the Senator's question he wonders whether the situation would have been different so far as the present status of the institution is concerned if they had not been consolidated. It is very difficult to answer that question.

Senator Couzens. Well, how is it that the Detroit Savings Bank, one of the oldest banks, did not succumb?

Mr. Lord. Because they were a State institution.

Senator Couzens. Yes; and so was the Bank of Detroit a State institution.

Mr. Lord. Yes.

Senator Couzens. And so was the Guardian Bank of Detroit a State institution.

Mr. Lord. I think it probably would have been better for the Guardian institution had they been organized under the State banking laws instead of the national.

Senator Couzens. And had that been the case you still would have believed it was a good thing to have consolidated those three independent banks?

Mr. Lord. Yes; I think it would have. Economies in operation, Senator, and a saving in various expenses.

Senator Couzens. The depositors have not seen any evidence of the economies, and I do not think the stockholders have. But what I am getting at is this: Here is the oldest bank, the Detroit Savings Bank, which did not succumb to the consolidation fever, and did not close but continued to operate, while the other banks, the Guardian Detroit Bank, the National Bank of Commerce, and the Bank of Detroit, succumbed under the pressure. Why is it so in that case and not so in the case of the Detroit Savings Bank?

Mr. Lord. Senator, I do not think it is proper that I should discuss the condition of the Detroit Savings Bank.

Senator COUZENS. I am not asking you to discuss the condition of the Detroit Savings Bank.

Mr. LORD. In my opinion had the Guardian been a State institution they would have been alive and going today.

Senator COUZENS. So you would advise a new bank starting, to take out a State charter, is that so?

Mr. LORD. Not necessarily, no; but under the conditions in Michigan, yes; as they existed.

The CHAIRMAN. Why would converting them from State banks to national banks affect them adversely?

Mr. LORD. Because I do not think that the national banks have gotten the cooperation that the State banks got from the banking authorities.

The CHAIRMAN. They had the Federal Reserve to fall back on?

Mr. LORD. Senator, when the holiday came the Guardian National Bank of Commerce did not owe anybody a cent, and had $22,000,000 in cash in the till.

Senator COUZENS. And never applied for a loan from the R.F.C.?

Mr. LORD. And never applied for a loan from the R.F.C., and owed the Federal Reserve Bank nothing.

The CHAIRMAN. Why did they not reopen?

Mr. LORD. Because they were not permitted to reopen.

The CHAIRMAN. By the State authorities?

Mr. LORD. By the national authorities.

The CHAIRMAN. It seems to me that the national authorities would not have the power to cause a bank that was perfectly solvent to close.

Mr. LORD. They did have the power.

The CHAIRMAN. This examiner's report does not show they had $22,000,000 of assets.

Mr. LORD. I did not say $22,000,000 of assets. I said that they had $22,000,000 in cash on hand at the time of the closing, and owed the Federal Reserve Bank nothing nor the Reconstruction Finance Corporation anything.

The CHAIRMAN. How large were their deposits?

Mr. LORD. Their deposits were, as I recall it, about $118,000,000.

Mr. PECORA. Now Mr. Lord, the first exhibit put in evidence when you took the stand before this committee on Tuesday of this week was a copy of the articles of association of the Guardian Detroit Group, Inc., which, in other words, is its charter.

Mr. LORD. I recall it.

Mr. PECORA. And Article 9 of that exhibit contains the following provision:

> The holders of the stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company.

Now in offering this stock to the public that provision of the charter was adverted to in public advertisements, was it not?

Mr. LORD. And on the back of the certificate, as I recall it.

Mr. PECORA. I was coming to that. It was also called attention to in the advertisements offering this stock to the public, was it not?

Mr. LORD. Mr. Pecora, I do not know of any advertisement ever offering the stock to the public.

Senator COUZENS. I do not think it was.

Mr. PECORA. Well, this provision of the charter was——

Mr. LORD (interposing). It was well known to everybody.

Mr. PECORA (continuing). Was shown upon the certificates of stock?

Mr. LORD. Yes, sir.

Mr. PECORA. That were issued by the Group?

Mr. LORD. Yes, sir.

Mr. PECORA. Now is it not a fact that on October 18, 1929, these articles of association of the Group were amended by adding the following clause to article 9, which is the article I have just read to you:

And the stockholders of this corporation by the acceptance of their certificates of stock of this corporation severally agree that such liability may be enforced in the same manner as statutory liabilities may now or hereafter be enforceable against stockholders of banks or trust companies under the laws of the United States or the State of Michigan. A list of the stockholders of this corporation shall be filed with the Banking Commissioner of Michigan and the Comptroller of the Currency whenever requested by either of these officers.

Do you recall that amendment?

Mr. LORD. Yes; I do.

Mr. PECORA. And was that provision also shown upon the certificates of stock issued by the Group?

Mr. LORD. I assume it was on the certificates issued after that date.

Mr. PECORA. Now, to your knowledge, is it not a fact that Mr. B. C. Schram, the receiver of the Guardian National Bank of Commerce of Detroit, and Alexander Groesbeck, the receiver of the Guardian Detroit Union Group, Inc., in those capacities, have brought actions against stockholders of the Guardian Detroit Union Group, Inc., to enforce the double liability in favor of the bank?

Mr. LORD. I think there is an action. I did not realize Governor Groesbeck was in on it.

Mr. PECORA. Well, I think the affirmative action for the enforcement of such liability was brought by Mr. Schram as the receiver of the bank.

Mr. LORD. That is my recollection. I do not know the legal phases of it, but that is my understanding.

Mr. PECORA. Now, do you know that in that action that an action was brought against Mr. Schram as receiver of the bank and against Governor Groesbeck as receiver of the Group to restrain them from enforcing this liability?

Mr. LORD. I know there is such an action. I know nothing about the details, nor have I ever seen the papers.

Mr. PECORA. And among the parties plaintiff in that action were officers and directors and, in fact, founders of the Group?

Mr. LORD. I believe there were one or two; yes, sir.

Mr. PECORA. Well, just the names that occur to me hastily now. Mr. Fred T. Murphy?

Mr. LORD. He was chairman of the board of the bank.

Mr. PECORA. He was chairman of the board of the bank?

Mr. LORD. Yes, sir.

Mr. PECORA. Also an officer of the group or director of the group?

Mr. LORD. He was a director.

Mr. PECORA. And one of the founders?

Mr. LORD. Of the bank; yes.

Mr. PECORA. Phelps Newberry?

Mr. LORD. He was an officer of the bank.

Mr. PECORA. And also a director of the group?

Mr. LORD. A director; yes.

Mr. PECORA. Mr. Carl B. Tuttle was one of the directors of the National Bank of Commerce at the time it was merged with the Guardian Detroit Bank, was he not?

Mr. LORD. He was also a director of the Guardian National Bank of Commerce.

The CHAIRMAN. The committee will now take a recess until 10:30 tomorrow morning.

(Thereupon, at 4:25 p.m., Thursday, Dec. 21, 1933, an adjournment was taken until 10:30 a.m. the next day, Friday, Dec. 22, 1933.)

STOCK EXCHANGE PRACTICES

FRIDAY, DECEMBER 22, 1933

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Norbeck, Couzens, and Townsend.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order, please. You may proceed, Mr. Pecora.

Mr. PECORA. Is Mr. Stalker here?

Mr. STALKER. Yes, sir.

Mr. PECORA. Take the stand, please.

The CHAIRMAN. Mr. Stalker, please come forward, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the subcommittee. So help you, God.

Mr. STALKER. I do.

TESTIMONY OF JOHN N. STALKER, GROSSE POINTE SHORES, MICH.

Mr. PECORA. Mr. Stalker, were you at one time connected with a banking institution known as the Union Guardian Trust Co. in Detroit, Mich.?

Mr. STALKER. I was.

Mr. PECORA. In what capacity?

Mr. STALKER. After the Union Guardian Trust Co.—well, I might say first that I was with the old Union Trust Co., which later changed its name to Union Guardian Trust Co. at the time of consolidation with the Guardian Trust Co. At that time I was elected president of the combined institutions. Prior to that time I was executive vice president of the Union Trust Co.

Mr. PECORA. When was the Union Trust Co. consolidated with the Guardian Trust Co.?

Mr. STALKER. As of the close of business March 31, 1930.

Mr. Pecora. And you were then made president of the enlarged institution, which was then called the Union Guardian Trust Co.?

Mr. Stalker. That is right.

Mr. Pecora. And that trust company was one of the unit banks of the Guardian Detroit Union Group, Inc., wasn't it?

Mr. Stalker. Yes, sir.

Mr. Pecora. How long did you continue as the president of the Union Guardian Trust Co.?

Mr. Stalker. Until January of 1932.

Mr. Pecora. Did you then sever your connection with the bank, or were you then made some other officer?

Mr. Stalker. I was made vice chairman of the board.

Mr. Pecora. Who succeeded you as president?

Mr. Stalker. Mr. Longley.

Mr. Pecora. How much of the capital stock of the Union Guardian Trust Co. was owned by the Guardian Detroit Union Group, Inc.?

Mr. Stalker. All except directors' qualifying shares.

Senator Couzens. When did they purchase the Union Trust Co., or did they own them at the time of the consolidation?

Mr. Stalker. The Union Trust Co. was a unit of the Union Commerce Corporation, and the Guardian Trust Co. was a unit of the Guardian Detroit Group.

Mr. Pecora. Then those two holding companies became consolidated on December 16, 1932.

Mr. Stalker. I think that was the date; yes, sir.

Mr. Pecora. I show you a photostatic copy of a letter which has been introduced in evidence and marked "Committee Exhibit No. 6, December 19, 1933", which purports to be a copy of a letter addressed to you under date of June 4, 1930, by Mr. Robert O. Lord, who then was president of the Group. Will you look at it and tell me if you recall that letter.

Mr. Stalker (after looking at the photostat). I believe that is a correct copy, sir.

Mr. Pecora. Now, there also has been introduced in evidence here a letter marked "Committee Exhibit No. 7, December 19, 1933", which I now show you. I ask you if you recall having written the original of that letter to Mr. Lord in reply to this letter to you marked "Committee Exhibit No. 6"?

Mr. Stalker (after looking at letter). Yes, sir. Now, may I just review this letter?

Mr. Pecora. Yes; certainly.

Mr. Stalker (after reading letter). Here it is.

Mr. Pecora. I also want to show you another letter which has been received in evidence here as Committee Exhibit No. 8, December 19, 1930, and which purports to be a copy of a letter written by you to Mr. Lord under date of June 26, 1930. Will you look at it and tell us if you recall having written the original of that letter to Mr. Lord? And you might also read it so that you may acquaint yourself or refresh your mind as to its contents.

Mr. Stalkfr (after looking at letter). I remember it, sir. And now I will read it. [After reading the letter.] Here it is.

Mr. Pecora. What is your answer?

Mr. Stalker. Yes, sir.

Mr. PECORA. Now, Mr. Stalker, you will notice that in the letter addressed to you under date of June 4, 1930, marked "Committee Exhibit No. 6", you were asked as the chief executive head or president of the Union Guardian Trust Co., to have your board declare a dividend at the rate of 5 percent for the quarter ending June 30, 1930, and the reply you made to that letter, evidenced by committee exhibit no. 7, was, in part, to the effect that a quarterly dividend of 5 percent was more than the bank had earned in that quarter. Now, will you tell the subcommittee what conversations or other communications passed between you and Mr. Lord, or any other officer or officers of the Group, with regard to the declaration of this dividend?

Mr. STALKER. I would find it hard to do that, Mr. Pecora. We had conversations back and forth between the Detroit officers of the Group more or less constantly in the matter of dividends, and other matters were also discussed. I think that letter was intended to place on record or confirm the substance of those conversations. I do not believe I could add to it.

Mr. PECORA. Now, your letter of June 5, 1930, marked "Committee Exhibit No. 7", was written, apparently, on the same day that you received Mr. Lord's letter dated June 4. And in this letter of yours you say:

I presume a dividend of this amount—

Namely, 5 percent quarterly—

is necessary to the fulfillment of your plan, and the officers are prepared to recommend it to the board.

Now, when you say you presume a dividend at that rate was necessary to the fulfillment of Mr. Lord's plan what did you have in mind in employing that language?

Mr. STALKER. Undoubtedly it was this: That the group contemplated a dividend of so much, and their office considered that our share of that dividend would be the amount that was asked for. I assume that was the situation.

Mr. PECORA. Now, you also informed Mr. Lord in this letter as follows:

However, as you are aware, a dividend of this amount has not been earned.

That was the fact, wasn't it, that earnings justifying that rate of dividend had not been earned in that quarter?

Mr. STALKER. I haven't the figures in mind, but I do not doubt the accuracy of the statement.

Mr. PECORA. You also said:

The officers—

Meaning the officers of your bank, undoubtedly—

are prepared to recommend it to the board.

That is to say, recommend the declaration of a 5-percent quarterly dividend. Now, why were the officers prepared to recommend the declaration of a dividend at a rate exceeding the earnings of the bank?

Mr. STALKER. Of course, we were relying on our undivided profits account. You see, the earnings of any institution vary from year to year, and from quarter to quarter, and such portions of earnings

as are not paid out in dividends accumulate in the undivided profits account, which are available for dividends if it is desired to pay them.

Mr. PECORA. Well, the undivided profits account is also available for the setting up of reserves, and so forth, against losses, and against depreciation in the portfolios of banks, isn't it?

Mr. STALKER. Yes, sir.

Mr. PECORA. And in the mid-summer, or rather in June of 1930, economic conditions and banking conditions were such that you, as an experienced bank officer, felt that those undivided profits should be very carefully conserved, didn't you?

Mr. STALKER. Yes. Of course, I was trained for a good many years along lines that were rather conservative in the matter of payment of dividends. Back in the old Union Trust Co. we used to figure that paying out about half of our earnings was what we should do. I think that is a fair statement in general.

Mr. PECORA. And you have never had occasion to regret the caution of the atmosphere in which you were trained in banking circles, have you?

Mr. STALKER. Nobody these days regrets any conservatism he ever had.

Mr. PECORA. Was there any special reason why you departed from that conservatism in June of 1930? Please tell us, if there was any such special reason, what that reason was.

Mr. STALKER. Of course, my point of view was this: The matter of determination of dividend was a matter for board action; and in connection with the consideration of the June 30 dividend by the board, it was the duty of the officers to lay the facts frankly before the board, as we did, and leave the decision to them.

Mr. PECORA. But in this particular instance, apparently, you did more than that. According to your letter to Mr. Lord of June 5 you stated that the officers were prepared to recommend to the board the declaration of the dividend at the rate suggested by Mr. Lord.

Mr. STALKER. Yes, sir. We believed, or I can say for myself that I believed, that providing we were relieved in the latter part of the year of some part of that dividend, it would not be particularly improper to dip into our undivided profits to the limited extent necessary to cover that dividend.

Mr. PECORA. Why were you as the executive officer of the bank prepared to recommend to your board at that time, in June of 1930, the declaration of a quarterly dividend at a rate that you felt was not justified by earnings.

Mr. STALKER. Well, there were several reasons. Among those reasons there was this: The merger of the Guardian Trust Co. and the Union Trust Co. was effected as of March 31. That consolidation did not decrease the gross earnings of either institution, but it did decrease their expenses. You see, there was a good deal of overhead that was absorbed by bringing the two institutions together, so the natural tendency of that would be to increase net earnings. Furthermore, it was always the rule with us that the second half of the year was better so far as earnings were concerned than the first half. That was true for this reason, that fees on our trust business were, possibly sometimes monthly, and some-

times quarterly, and sometimes semiannually, and even annually, and annual fees tended to concentrate in December.

Senator COUZENS. Was the portfolio of either the Guardian Trust Co. or the Union Trust Co. affected in any way by the consolidation?

Mr. STALKER. Not that I can recall, Senator Couzens. I do not right at this minute remember any changes.

Senator COUZENS. In other words, the portfolio of the combined Union Trust Co. and Guardian Trust Co. was as good and as strong as the individual banks were standing alone?

Mr. STALKER. I believe so; yes, sir.

The CHAIRMAN. Wasn't it one of your ideas that you wanted to retain such a status with the group that, in case you needed any assistance from them, you would be able to command it, and therefore you wanted to declare the dividends they desired?

Mr. STALKER. Well, I think I would rather express the situation in this way, Senator Fletcher: That our unit, as I believe all units, desired to cooperate fully with the group. We believed, or I believed, at that time that the group idea was a good one, that it was making for the strength of the units. We desired to cooperate fully. We believed, and we were right in believing, that the group would do all it could to assist us if we needed help.

Senator ADAMS. Well, the group owned, really, didn't it, 100 percent of your stock?

Mr. STALKER. Except the qualifying shares.

Senator ADAMS. So that they were in a position to tell you what to do if they wanted to do it? That is, you did not have much option about the matter, did you?

Mr. STALKER. No; except this, Senator Adams: That whatever the stockholders might have decided to do, after all the directors were independent men, who would be guided by their own judgment.

Senator ADAMS. That is true, but if they disregarded the request of the owners of the bank there were certain natural consequences.

Mr. STALKER. Well of course the stockholders of any institution have a right to select their board of directors.

Senator ADAMS. And if the stockholders of an institution give their officers, who represent them, orders, or I might say make requests, and of course requests are frequently orders, they are expected to obey.

Mr. STALKER. Well——

Mr. PECORA (interposing). Were you consulted about the dividend rate fixed by the Group to be paid to its stockholders?

Mr. STALKER. I was at that time, Mr. Pecora, a member of the board of the Group.

Mr. PECORA. Yes; and the board of the Group had determined upon a dividend at the rate of $3.20 per annum on its $20 par value stock.

Mr. STALKER. Yes, sir.

Mr. PECORA. Did you approve of that?

Mr. STALKER. I have no doubt I did, but I could not recall positively.

Mr. PECORA. As you now recall it did you approve of it unqualifiedly, or did you have any misgivings or doubts in your mind as

to the wisdom of paying a dividend at the rate of about 16 percent on the par value of the stock?

Mr. STALKER. Mr. Pecora, my acquaintance with the earning power and the ability to pay dividends of the various units that comprised the Group was limited to my knowledge of the affairs of the Union Guardian Trust Co.

Mr. PECORA. Which was the bank that you headed?

Mr. STALKER. Yes, sir. And, of course, that earning power—that is, the ability of the Group to pay dividends—depended not upon the earning power of any given institution but upon the earning power of the units as a whole.

Mr. PECORA. Of all the units?

Mr. STALKER. Yes, sir.

Mr. PECORA. You were only familiar with the dividend-paying power of your particular unit bank?

Mr. STALKER. Yes, sir.

Mr. PECORA. Well, as a director of the Group weren't you kept advised concerning the earnings of all the unit banks of the Group, so that you as a director could act with full knowledge on the matter of dividend policy for the Group?

Mr. STALKER. Yes; and I do not want to have any misconception here, sir. The directors of the Group Co. were, of course, provided with earnings statements of the units of the Group, which included the Union Guardian Trust Co. and all other units. When I spoke of knowledge, I meant that particular and close information regarding earnings and reserves, which I had with respect to the Union Guardian Trust Co.

Mr. PECORA. Well, your letter of June 5, 1930, addressed to Mr. Lord was really designed by you as a protest mildly expressed against your bank being required to declare a 5 percent quarterly dividend, wasn't it?

Mr. STALKER. I would have preferred to have seen that dividend less.

Mr. PECORA. Was that the thought you intended to convey by a gentle intimation to Mr. Lord in your letter?

Mr. STALKER. Yes; I think that is a fair statement. I believed that we should build up reserves more fully than we then were.

Mr. PECORA. Apparently at that time, as I understand your letter, your company was not setting up any reserves.

Mr. STALKER. That is true as of the first half of the year.

Mr. PECORA. And you thought it was an unwise policy?

Mr. STALKER. Yes, sir.

Mr. PECORA. Why didn't it set up reserves at that time?

Mr. STALKER. Well, our earnings were not sufficient at that time. But we hoped that we would be able to set up reserves in the latter half of the year.

Mr. PECORA. Didn't you as an experienced banker believe it wiser to take enough of the earnings and put them in your undivided profits account as would be the basis for the setting up of reserves, rather than to pay dividends?

Mr. STALKER. If we had been operating as a sole and independent unit, there is no doubt but what that would have been true. Of course, we were a part of the group picture, and at the time we believed and I still believe, added greatly to the strength of the units.

We also had savings in the matter of expenses resulting from the merger, which we believed, and we were right in believing, would be made effective in the latter part of the year.

Mr. PECORA. Would you say, on the basis of the answer that you have just made, that it is your judgment this form of group banking has evils inherent in it?

Mr. STALKER. I do not know of any sort of banking that hasn't evils inherent in it, any sort of banking that has been devised up to date.

Mr. PECORA. I mean evils peculiar to group banking.

Mr. STALKER. Yes, sir; and also as to other banking.

Mr. PECORA. What are the evils that you recognize in this kind of group-banking system?

Mr. STALKER. Chiefly this: That while I think the failure of any unit is less likely to occur with the strength of the group behind it, yet if failure does occur the effect is more disastrous.

Mr. PECORA. Because the failure would spread to the other units in the system?

Mr. STALKER. There is always that danger.

Mr. PECORA. Well, that is no inconsiderable danger, is it?

Mr. STALKER. No. Although, of course, I do not think anybody at that time—and I certainly could not—conceive of any possible likelihood of failure on the part of the Group or any of its units.

Mr. PECORA. For how long a period of time did the Group maintain this annual dividend disbursement at the rate of $3.20 a share?

Mr. STALKER. I could not say with certainty, sir.

Mr. PECORA. When it was declaring a dividend at that rate, what proportion of its earnings did that disbursement represent?

Mr. STALKER. I could not answer that question, either.

Mr. PECORA. I do not expect you to be able to answer it accurately, but can you give us an approximation which would represent your opinion? I am not asking you under oath to pin yourself down to specific facts on that.

Mr. STALKER. Well, Mr. Pecora, I am not trying to avoid answering your question, but——

Mr. PECORA (interposing). I know that.

Mr. STALKER (continuing). But I would hesitate to attempt to say. I had very little contact with the Group figures, and I just would not attempt to say, sir. I think you doubtless have available those figures.

Mr. PECORA. What knowledge did you, as a member of the Group's board, possess which enabled you to act with any intelligence and understanding of all the surrounding factors to express your judgment on the matter of the dividend to be paid by the Group to its stockholders?

Mr. STALKER. The reports of the officers of the Group which were presented at the Group meetings.

Mr. PECORA. That gave you general knowledge at least of the earnings of the Group?

Mr. STALKER. Yes.

Mr. PECORA. When the Group was declaring dividends at the rate of $3.20 a share, couldn't you tell us, approximately, what proportion of earnings that dividend rate represented?

Mr. STALKER. It might seem as if I ought to remember that very distinctly, sir, but conditions changed, you know, so rapidly, there were so many things going on, conditions that were true in one year were not true the next, as you recall, and my recollection is merely this, that in every case the dividend which was proposed seemed to be amply covered by the earnings of the units. I do not believe I could go further than that, sir.

Mr. PECORA. Do you mean by that that the earnings were sufficient to pay the dividends?

Mr. STALKER. Yes.

Mr. PECORA. Wasn't it considered advisable to set up an undivided profits account out of the earnings of the Group and make that account as large as possible in view of the conditions that existed?

Mr. STALKER. I cannot answer for the Group accounts very much, Mr. Pecora.

Mr. PECORA. That would lead me to feel, Mr. Stalker, that the directors of the Group did not have, for some reason or other, the knowledge of Group earnings and conditions surrounding each unit in the Group to have enabled them to pass on dividend questions of the Group with a full knowledge of all the facts. Am I correct in that assumption?

Mr. STALKER. I would not want to convey that impression, sir. At the meetings of the Group board there were submitted earnings of each of the units, and those earnings were combined, the proposed dividend was proposed, and the directors took action as to its advisability. I cannot remember what each of those individual units earned.

Mr. PECORA. Now, from time to time, when the directors of the Group met and discussed the matter of dividend to be declared on its stock, were protests or objections of any kind received from any of the unit banks either in writing or orally, which were laid before the Group's board and fully discussed?

Mr. STALKER. I could not say whether there were or not. I do not recall any at the moment. Yet there might have been. There was a frank discussion of the problems of the Group at the Group meetings.

Mr. PECORA. Do you recall any instance where you attended a meeting of the board of directors of the Group at which there was presented for the consideration of the directors a protest or protests of any unit banks with respect to the dividend rate that such banks were requested in behalf of the Group to declare?

Mr. STALKER. I do not recall any such, but I would not want to say that it never happened.

Mr. PECORA. Were you present at any meeting of the board of directors at which the protest embodied in your letter of June 5, 1930, was considered?

Mr. STALKER. I believe not.

Mr. PECORA. Doesn't it appear from this correspondence that the procedure with regard to dividend policy of the Group and its respective units was something in this fashion: The Group first determined the amount of dividend that it was going to pay on its stock and then called upon the respective unit banks to declare such dividends as would enable the Group to pay the dividend that it had agreed upon to be paid to its own stockholders?

Mr. STALKER. Whether or not that is putting the cart before the horse I am not absolutely sure. I would be as willing to believe that the Group officers considered the earnings of the various unit banks and then determined from those earnings what dividend they could properly pay. In fact, I do believe that that was the procedure followed.

Mr. PECORA. Was that the procedure followed by the board of directors of the Group?

Mr. STALKER. I believe so.

Mr. PECORA. Well, have you any doubt in your mind as to whether it was or not?

Mr. STALKER. No; I have not. But when I say——

Mr. PECORA (interposing). Then will you tell me this, Mr. Stalker, why was it, at the meeting of the board of directors of the Group at which the board determined the rate of dividend or the amount of dividend it was going to pay to its stockholders for the quarter ending June 30, 1930, that your protest against the declaration of a 5-percent dividend for that quarter by your bank was not then presented?

Mr. STALKER. I could not say.

Mr. PECORA. Do you recall any meeting of the board of directors of the Group at which there was discussed dividend to be paid by the Group for the quarter ending June 30, 1930?

Mr. STALKER. I have no recollection of that meeting at all, sir.

Mr. PECORA. When you received the letter of June 4, 1930, from Mr. Lord were you surprised at the request that your bank declare a quarterly dividend of 5 percent?

Mr. STALKER. No; I was not, because our previous record of earnings would apparently quite justify that dividend. You see, prior to that time—prior to the merger—the Union Trust Co. had its own bond department, which was a distinctly profitable department.

Mr. PECORA. It was profitable to the extent of around $300,000 a year, approximately, wasn't it?

Mr. STALKER. Yes. As a part of the merger that bond department was transferred to the Guardian Detroit Co.

Mr. PECORA. That was the securities affiliate of the Guardian Detroit Bank?

Mr. STALKER. Yes, sir. It seemed unwise—it was unwise—to run two competing institutions doing the same type of business when one could handle it better. So it seemed a perfectly proper move to transfer that bond department to the Guardian Detroit Co., but it did affect the earnings of the Trust Co.

Mr. PECORA. Affected them rather substantially?

Mr. STALKER. Yes, sir.

Mr. PECORA. What had been the amount of dividends paid by the Union Trust Co. for the year preceding the time of its merger with the Guardian Trust Co.?

Mr. STALKER. I could not say with certainty, sir. I do not really remember. It was in that neighborhood. I can say that.

Mr. PECORA. Wasn't it at the rate of 4 percent per quarter?

Mr. STALKER. It might have been. First we had added to the Union Trust Co. the Guardian Trust Co., which might readily have accounted for the increase from 4 to 5.

Mr. PECORA. Do you know the amount in dollars and cents disbursed as dividends by the Union Trust Co. during the 12 months preceding its consolidation with the Guardian Trust Co.?

Mr. STALKER. That would be for the year 1929, wouldn't it? I don't recall, sir.

Senator COUZENS. When the Group Co., of which you were a director, set up its dividend rate, did they prepare a schedule of what each unit was to contribute to that dividend?

Mr. STALKER. There is no doubt in my mind, Senator, though I don't recall that I ever saw those figures, that they considered the earnings of each unit and considered what each unit might properly pay.

Senator COUZENS. You never saw a schedule, then, of what each unit was to contribute to the group dividend?

Mr. STALKER. I have no doubt that schedules were brought into the board meetings, though I don't definitely recall.

Senator COUZENS. Do you recall what the Union Guardian Trust Co.'s share of the Group's dividend was to be?

Mr. STALKER. Well, I think each dividend was considered by itself.

Senator COUZENS. I mean with respect to any specific dividend then.

Mr. STALKER. I think that this particular dividend that we are discussing now——

Senator COUZENS. Yes.

Mr. STALKER. The suggestion was that the Union Guardian Trust Co. pay 5 percent of its capital.

Senator COUZENS. Yes. Well, what share was that toward the Group dividend? What percentage of the Group dividend was that?

Mr. STALKER. Well, let's see. As I recall it, there was about a million—I can only give some rough figures.

Senator COUZENS. We understand that.

Mr. STALKER. Yes. As I recall it, there were about a million and a half shares of Group stock outstanding. $3.20 a year would be 80 cents a quarter. That would be $1,200,000. Five percent of the Union Guardian Trust Co.'s capital would be $250,000. I think those figures are right.

Senator COUZENS. So that your share would be somewhere about one fifth, is that right?

Mr. STALKER. That would be about right; yes, sir.

Mr. PECORA. Mr. Stalker, in your letter of June 5, 1930, where you stated that the officers of your bank were prepared to recommend to your board the declaration of a 5 percent dividend for that quarter—I withdraw that question.

After you wrote your letter of June 5, 1930, to Mr. Lord, in which you stated that the officers of your bank were prepared to recommend to your board the declaration of a quarterly dividend of 5 percent, did your board meet and consider the request contained in Mr. Lord's letter of June 4?

Mr. STALKER. Yes, sir.

Mr. PECORA. Did they act favorably at their first meeting after the receipt of the letter of June 4 upon the suggestion therein contained?

Mr. Stalker. I believe so.

Mr. Pecora. Did they act favorably at the very outset?

Mr. Stalker. Well, I cannot remember, Mr. Pecora, the details of the discussion. The whole matter was proposed to the board. The board was furnished with statements. The matter was discussed, I suppose, as those matters were always discussed. I have no recollection of any particular comment or discussion on it from any individual. And the stock was voted.

Senator Couzens. Do I understand you to mean when you said that they passed upon the dividend that the reports had not been submitted?

Mr. Stalker. The reports of the Union Guardian Trust Co. were always submitted, sir.

Senator Couzens. Well, I understood you in your answer a while ago to say that in the discussion of this dividend you required the submission of the reports of earnings.

Mr. Stalker. No. Of course, we did not have at the time that dividend was declared the full earnings for the month of June.

Senator Couzens. You say the meeting was held during the month of June?

Mr. Stalker. We did have complete earnings for the preceding 5 months.

Senator Couzens. So that the picture was not complete when they approved of the dividend?

Mr. Stalker. Not entirely complete, but practically so.

Senator Couzens. Was your letter to Mr. Lord presented to the board of directors for discussion?

Mr. Stalker. I don't know that it was.

Senator Couzens. Well, you recommended to the board that they approve of the 5 percent dividend, did you not?

Mr. Stalker. I probably did, sir. I don't recall.

Senator Couzens. But you did not present to the board your protest, mildly put to Mr. Lord in your letter, did you?

Mr. Stalker. That protest, Senator Couzens, I think should be considered in this way: I desired to call the attention of the Group's officers to the fact that we were not building up reserves as I believed we should. Now, I did not see any particular objection to declaring that one dividend of the rate requested, provided our situation was clearly understood by the Group officers and provided we got the relief in the latter part of the year which I asked for.

Senator Couzens. Yes, but I am anxious to know whether you submitted to the board of directors when they declared this dividend the fact that you were not setting up any reserves and that you had presented the facts to the Group officers?

Mr. Stalker. The fact that we were not setting up any reserves was known to our board.

Senator Couzens. Did you emphasize it?

Mr. Stalker. Well, it was clearly stated, sir. Each month at our board meetings we had a very complete statement of earnings and expenses which was submitted to the board. That statement showed all the earnings, all the expenses, charges to undivided for losses and charges to undivided for reserves. It gave a complete picture of the entire earnings situation.

Senator COUZENS. But you did not tell the board of directors that you had written Mr. Lord that you thought the dividend was excessive?

Mr. STALKER. I might have said so. I really cannot remember.

Senator COUZENS. But in spite of that you recommended the dividend be paid?

Mr. STALKER. I have no doubt that I recommended it. I don't recall that, either.

The CHAIRMAN. How many of these 5 percent dividends did you pay?

Mr. STALKER. That was the last one.

The CHAIRMAN. And then what was the next?

Mr. STALKER. Four percent.

The CHAIRMAN. And then after that?

Mr. STALKER. Four percent. Following that two and a half.

The CHAIRMAN. When was the two and a half paid?

Mr. STALKER. The following year.

The CHAIRMAN. So the dividends went down year after year?

Mr. STALKER. Yes, sir.

The CHAIRMAN. The depression was on then?

Mr. STALKER. It was indeed; yes, sir.

Mr. PECORA. It was on in 1930, too, wasn't it, also?

Mr. STALKER. Yes, sir. But, of course, we were looking for prosperity around the corner.

Senator COUZENS. Are you looking for it now?

Mr. STALKER. No, sir.

Mr. PECORA. Mr. Stalker, would you, as the executive head of your bank in June 1930, on your own judgment and feeling with respect to what the dividend rate should have been, have recommended to your board or would you have favored the declaration of a 5 percent quarterly dividend by your board if you had been left to the exercise of your own untrammeled judgment?

Mr. STALKER. If we had been an independent institution I would certainly have not.

Mr. PECORA. You would have recommended a declaration of a dividend at a rate lower than 5 percent at that quarter?

Mr. STALKER. Yes, sir.

Mr. PECORA. How much lower?

Mr. STALKER. Well, that is a pretty hard question, sir. You see, that decision would have had to have been reached in the light of all the circumstances at the time. And I do want to bring this fact out, that if the Union Guardian Trust Co. or the Group were a manufacturing concern, not dependent for its existence upon the confidence of the public, I believe it is a perfectly safe statement to say that dividends would have been drastically and immediately reduced right after the crash.

Mr. PECORA. Just a moment—do you mean by that that in the case of banks the declaration of dividends is based, among other things, on the factor of retaining or preserving or increasing the confidence of the depositors in the bank?

Mr. STALKER. No; but we were not under normal conditions at the time. At that time, as you recall, there was a great deal of public

unrest. Banks were failing. People were hoarding money. There were rumors around everywhere that this bank and that bank was in a dangerous position. If any given institution, no matter how strong, had suddenly stopped dividends or reduced them drastically, it might easily have precipitated a run on that institution. Runs will start from almost nothing, and they grow like snowballs.

Mr. PECORA. Was that in your mind when dividends were declared by your board during the depression period?

Mr. STALKER. I had it in my mind; yes, sir.

Mr. PECORA. Then, dividends were declared at a rate not justified by the earnings partly to bolster up public confidence or the confidence of your depositors in your bank?

Mr. STALKER. I would not say they were not justified by earnings, sir. I do not think the Group Co., for instance, declared dividends which were not covered by earnings. In the particular case that you mention the Trust Co. had to draw on undivided profits to pay a portion of that dividend.

Mr. PECORA. It would not have done that normally if it had been an independent bank instead of a unit in a group, would it?

Mr. STALKER. I can only speak for myself. I would not favor it.

Mr. PECORA. Why did your board in the spring and summer of 1930 depart from its theretofore commendable policy of setting aside a portion of earnings to the account of undivided profits in order to take care of necessary reserves? Why was that done in the year 1930?

Mr. STALKER. Well, I think it was just this way: The dividend had become a more or less fixed institution.

Mr. PECORA. Why?

Mr. STALKER. From the course of years of practice. And we had a loss in earnings. We all hoped and believed that was a temporary loss. We did not believe that it would continue.

Mr. PECORA. But in view of the fact that you had had losses to a degree exceeding those that you experienced in normal times, didn't that make it all the more necessary and imperative to set up a fund from which reserves could have been taken for losses?

Mr. STALKER. It made it desirable, but, of course, you will bear this in mind, that our good fortune in the past, because we were lucky enough to have encountered previously very few losses, had resulted in our accumulating a very substantial amount of undivided profits.

Senator COUZENS. How much?

Mr. STALKER. I just do not want to say at that time, Senator.

Senator COUZENS. Approximately?

Mr. STALKER. Well, with all the good will in the world, Senator, I am not just clear enough on those figures. You see, I had no chance—have had no chance—to review any of the statements of the institution since those days; and since the closing of the holiday I had no records and have no access to the information of the Trust Co.

Senator COUZENS. Were the undivided profits a million dollars?

Mr. STALKER. I believe probably Mr. Pecora has the exact figures here.

Mr. PECORA. The exact figures here for the year ending December 31, 1929, were only $402,000.

Mr. STALKER. And have you got the figures for the year following, sir?

Mr. PECORA. 1930—$293,406.

Mr. STALKER. We had not only undivided profits but of course reserves.

Mr. PECORA. No, wait: I read the wrong item. The undivided profits at the close of business on December 31, 1930, according to the annual report of the Group marked in evidence here as "Exhibit No. 36" of the Union Guardian Trust Co., was $732,000.

Mr. STALKER. There were reserves in addition to that which did not appear in the undivided profits picture.

Mr. PECORA. There were reserves, according to this annual report, of $293,000.

Senator COUZENS. Had you not been required to pay the 5 percent dividend how much would you have set aside for the reserve, have you any idea?

Mr. STALKER. Well, it is a little hard, looking back for 3 years, to say what I would have done if I had done something else, sir. I don't know.

Senator COUZENS. You have no figures in your mind now?

Mr. STALKER. No, I have not.

Mr. PECORA. Now, I notice, comparing the annual reports of your bank as of the close of business on December 31, 1930, with the close of business as of December 31, 1931, that at the end of 1930 your surplus was $5,000,000 and at the end of 1931 it was $2,500,000; whereas at the end of the year 1929, the first fiscal year preceding your entry into the group, your surplus was 7½ million dollars.

Mr. STALKER. That was accounted for, Mr. Pecora, by the fact that the Union Trust Co. owned the Union Trust Building, as it was then called, and had an investment of about 5 million dollars of its own money in that building. At or about the time of the merger that 5 million dollars was declared out as a special dividend payable in the stock of the building company, which depleted the surplus by 5 million dollars.

Mr. PECORA. When was that done?

Mr. STALKER. At or about the time of the merger.

Mr. PECORA. Why was that done at that time?

Mr. STALKER. We did not believe that the stock of a building company was a proper asset to continue to hold in the trust company.

Mr. PECORA. Now, in view of that very substantial depreciation in the surplus account, didn't you think it was unwise to declare the dividend that was requested by the group as of the end of June 1930?

Mr. STALKER. No. Haven't I already testified——

Mr. PECORA (interposing). You cut that surplus account down by two thirds?

Mr. STALKER. Yes. Of course, that cutting down of the surplus was more apparent than real, Mr. Pecora, because, as a matter of fact, it consisted of the ownership of the building, which was not, as we believed, a proper banking asset to continue to hold.

Senator COUZENS. That conclusion has turned out to be correct?

Mr. STALKER. It has.

The CHAIRMAN. Still that went to the public as a surplus in the Trust Co.?

Mr. STALKER. That was the reason that we took it out. Senator. Believing that we should not report to the public that we had so much surplus that consisted of the ownership of a building, we took it out.

The CHAIRMAN. What had been your dividend prior to this 5 percent?

Mr. STALKER. I believe for the preceding year it was 4 percent quarterly, but I am not sure of that. I think that was it.

Mr. PECORA. Four percent quarterly or 16 percent a year.

The CHAIRMAN. The effect of this procedure and practice and policy of the Group to fix these dividends at about 16 percent on their stock and then raise it by requiring dividends from the units was to impress the public with the solid financial condition of the Group, and that reflected in a measure on the banks, and that policy, together with the policy with reference to bills payable, gave an enhanced value to the stock of the Group?

Mr. STALKER. I don't think, Senator, there was any director of the Group Co. who believed that the strength of the group organization was overstated to the public. I did not believe so.

Mr. PECORA. Well, whether it was overstated or not, were not the facts embodied in Senator Fletcher's question to you the actual facts?

Mr. STALKER. Might I have that question again, please?

Mr. PECORA. Yes, because I think you should listen to that as a comprehensive question.

The SHORTHAND REPORTER (reading):

> The effect of this procedure and practice and policy of the group to fix these dividends at about 16 percent on their stock and then raise it by requiring dividends from the units was to impress the public with the solid fiananncial condition of the group, and that reflected in a measure on the banks, and that policy, together with the policy with reference to bills payable, gave an enhanced value to the stock of the group?

Mr. STALKER. When we use the expression, Senator, "enhanced value", it is not absolutely clear what that means. You mean more than it should have been?

The CHAIRMAN. Yes, I mean exaggerated value.

Mr. STALKER. Well, speaking for myself, I did not think at that time that the reports to the public gave an exaggerated idea of the value of the group stock. I can best prove that fact by stating that I continued, simple-mindedly as I did, to buy group stock after that time, which I would not have done if I had not thought it was worth as much as it was selling for.

Senator COUZENS. What is your occupation now, Mr. Stalker?

Mr. STALKER. I have none.

Senator COUZENS. Did you get out of the bank when the banks closed?

Mr. STALKER. Yes, sir. When I say I have none, Senator, I have organized a little company, but we haven't any business yet to speak of.

Mr. PECORA. Mr. Stalker, I notice in your letter of June 5, 1930, to Mr. Lord you also said this:

In addition to that—

and the pronoun "that" refers to the previous sentence where you said—

However, as you are aware, a dividend of this amount has not been earned—in addition to that, the Trust Co. is setting up no reserves, and we feel that is not as it should be.

Who were the "we"?

Mr. STALKER. The officers of the Trust Co.

Mr. PECORA. Then why didn't the officers set up the reserves when in their judgment it should have been done?

Mr. STALKER. At that particular time the earnings were not available for the purpose. That is the reason for bringing the situation to Mr. Lord's attention.

Mr. PECORA. Well, was it because there was any suggestion by the Group or anyone in the Group to your board that no reserves should be set up?

Mr. STALKER. No.

Mr. PECORA. Apparently it was the judgment of yourself and the other officers of the bank that reserves should be set up?

Mr. STALKER. Yes.

Mr. PECORA. Then why wasn't it done?

Mr. STALKER. At that time—I think I have testified to this before—at that time the earnings were not sufficient to do so. However——

Mr. PECORA (interposing). Then if the earnings were not sufficient to set up reserves, why did you, out of those reduced earnings, increase your dividends?

Mr. STALKER. May I repeat a little bit what I think I have previously testified? We had several considerations in mind. One of them was the recent merger between the Guardian Trust Co. and the Union Trust Co., which we believed would result in better net earnings. There was the further fact that the latter half of the year, in the experience of the Union Trust Co., was always distinctly better than the first half of the year. We believed and hoped that the second half of the year we would set up the reserves which ought to be set up.

Mr. PECORA. Well now, Mr. Stalker, didn't you know that in June 1930?

Mr. STALKER. Didn't I know what, sir?

Mr. PECORA. What you have just stated.

Mr. STALKER. Yes.

Mr. PECORA. Why didn't you let each quarter take care of itself on the matter of the dividend to be declared for each quarter?

Mr. STALKER. Because the earnings of the Trust Co., Mr. Pecora, do not come in in even quarters the way interest comes in, for instance. A considerable number of our fees are charged either semiannually or annually, and on the annual fees the tendency is for them to concentrate in the summer of each year.

Mr. PECORA. Why, as a matter of fact, you said in this letter of June 5, 1930:

Were our earnings sufficient to justify the dividends at the annual rate of 20 percent, we would not raise the question of a loss in income from the bond department, but under the circumstances we feel that the Trust Co. is entitled to and must have some relief the latter part of the year.

Mr. STALKER. And we got it.

Mr. PECORA. In what way?

Mr. STALKER. The dividends were reduced the latter part of the year from 5 percent quarterly to 4 percent quarterly.

Mr. PECORA. Now, isn't it a fact that one of the considerations, and perhaps the most important and the most persuasive consideration, that actuated your board in adopting the suggestion of the group in June 1930 to declare a dividend at the rate of 5 percent for that quarter, was that it was felt by you and your officers and your board that you were more or less under the duty of carrying out the suggestion of the group?

Mr. STALKER. I would not put it quite that way.

Mr. PECORA. To what extent would you tone that statement down?

Mr. STALKER. I would say this, sir, that the officers and directors of the Union Guardian Trust Co. desired to cooperate fully in the work of the Group Co.

Mr. PECORA. That is another way virtually of stating what I said, isn't it?

Mr. STALKER. Well, there may be that much difference.

Mr. PECORA. And that actuated the board at all subsequent times in the declaration of its dividends, did it not?

Mr. STALKER. I would not want to convey the impression, Mr. Pecora, that the board lost at any time its right of independent action.

Mr. PECORA. Whether it lost its right of independent action, did it exercise its right of independent action?

Mr. STALKER. First, to determine that question, you have to get into the minds of the individual members of the board, but from my knowledge of those men I cannot believe that they would vote for a dividend which they did not believe was a proper dividend to pay. They are not the type of men who would do that.

Mr. PECORA. Isn't that exactly what they did do in declaring the dividend rate in June 1930?

Mr. STALKER. No, sir; I believe in the light of all the circumstances, by which I mean the probability of betterment of conditions in the latter part of the year, we were all looking for a turn in the tide, as you probably remember.

Senator COUZENS. As a matter of fact, Mr. Stalker, isn't it the general practice that the board of directors have to rely largely on the recommendations of their officers?

Mr. STALKER. That is true, Senator Couzens, to the extent that they have to depend on them for information about the condition of the company.

Senator COUZENS. Oh, and also on recommendations as to policy, do they not?

Mr. STALKER. I would suppose that they pay attention to that, Senator.

Senator COUZENS. They obviously must have confidence in their officers, or they would not have them, would they?

Mr. STALKER. True.

Senator COUZENS. So they automatically, as a matter of fact, have to rely upon the recommendations of the officers?

Mr. STALKER. But not exclusively.

Senator COUZENS. No; I know, but as a matter of fact, they do. And so the directors at that time may not have been said to have been under the domination or the influence of the Group, yet it is apparent that you had agreed prior to the meeting, notwithstanding your own views, to recommend to the board that they pay this dividend.

Mr. STALKER. I would like to again say, if I may, Senator Couzens, that the letter I wrote to Mr. Lord was not directed exclusively at the matter of this particular dividend. I wanted to bring out before him the question of the earning situation of the trust company, the fact that we desired relief the latter part of the year, which we got.

Senator COUZENS. What was the date again that you were taken out of the presidency and Mr. Longley was put in?

Mr. STALKER. I think it was in January of 1932.

Senator COUZENS. What was that done for?

Mr. STALKER. I would not know that.

Senator COUZENS. Who did it?

Mr. STALKER. I will tell you all I know about it, sir. Hal Smith, who was one of our directors, called me into his office one day and said that it had been proposed that it would be desirable for Mr. Longley to assume the presidency and for me to be vice chairman of the board, and I said, "All right."

Mr. PECORA. In view of the fact that all of the capital stock, with the exception of the qualifying shares for directors of your bank was owned by the Group, didn't you and your associate officers virtually feel that you were the employees of the Group?

Mr. STALKER. No.

Mr. PECORA. As a matter of fact, were you not that, in substance if not in form?

Mr. STALKER. That would assume that our directors were rubber stamps.

Mr. PECORA. I said the officers.

Mr. STALKER. I know; but I meant the officers were working for the directors and under their control and I would not——

Mr. PECORA. And the directors were chosen by the stockholders; and the only stockholder was the Group?

Mr. STALKER. Correct. Nevertheless, that does not mean that any director is a rubber stamp. I don't think our directors were rubber stamps.

Mr. PECORA. As a matter of fact, though, didn't you, as the executive head of the bank, feel that your tenure depended more or less upon your satisfying the Group?

Mr. STALKER. I never spent an awful lot of time thinking about my own situation, to tell you the truth.

Mr. PECORA. It was not necessary to spend a lot of time thinking about it, in view of the fact being so patent that it did not require much thought to impress the fact upon your mind; is not that so?

Mr. STALKER. I am not just quite sure about the question, but I will state it in this way: We had directors of the Trust Co. who I believed and still believe were interested in the affairs of the com-

pany. I was accountable to them. That is where I began and about where I stopped.

The CHAIRMAN. They were all interested in the group, were they not?

Mr. STALKER. Some of them were directors of the group, and some were not.

The CHAIRMAN. I gained the impression as indicated by my question to you a moment ago, and I do not wonder that you bought stock in the group when you realized that they had the power, and exercised it, to tax the units so as to pay their dividends.

Mr. STALKER. Of course it would have been a very foolish thing for me, Senator, to have bought stock in a concern that was being bled. I would not have done that.

The CHAIRMAN. They were not being bled. They got their dividends by assessing the units.

Mr. STALKER. But the group itself had no earnings except such as were derived from the units. Now, if I had believed that the condition of the units was being generally imperiled by excessive dividends I would certainly not have bought more stock in the group.

Mr. PECORA. The board declared its 5 percent quarterly dividend in June 1930 and forwarded the dividends accruing to the group as the sole owners of the stock of your bank in time to enable the group to pay its dividend for that quarter, which it did on or about June 16, 1930?

Mr. STALKER. I have not the date, but otherwise your statement is correct.

Mr. PECORA. In other words, after your board declared its 5 percent quarterly dividend and paid it to the group, you wrote this letter of June 26, 1930, to Mr. Lord, which is marked as an exhibit in this hearing, as of December 19, 1933, and in this letter you said, among other things, as follows:

> As against $500,000 in dividends which we are paying the first 6 months of this year our earnings will probably not run over $425,000, and that is without setting up any reserve at all. Our policy in the past has always been to set up liberal reserves, although we were fortunate enough to need them only to a very limited extent. At the present time we feel that reserves are rather urgently required and find ourselves unable to provide them.

Why did you write that to Mr. Lord?

Mr. STALKER. To have it a matter of record.

Mr. PECORA. And also because those were the facts?

Mr. STALKER. Yes, sir; as I believed and now believe.

Mr. PECORA. This letter was written within 2 weeks after the date when the dividend of 5 percent for that quarter was paid by your bank to the Group. Was it that circumstance that left your bank on June 26, 1930, unable to provide or set up reserves that were then urgently required?

Mr. STALKER. That would be a factor in the situation.

Mr. PECORA. Then I still marvel that if your board were exercising independent judgment in connection with this dividend declaration it did not reject the suggestion of the Group with regard to the dividend that your bank should declare.

Mr. STALKER. Of course they were motivated, without doubt, by the decreased expenses which we expected would result from the

merger of the two trust companies and by the increased earnings that were customary at the latter half of the year, and also——

Mr. PECORA. With regard to that, let me remind you that your letter of June 26, 1930, to Mr. Lord also said this, about the latter part of the year:

Mr. Blair and I are of the opinion that for the last half of this year dividend aggregating $400,000, or at the annual rate of 16 percent, is the maximum that this company should undertake to pay.

Mr. STALKER. We wanted to get those dividends reduced so that we could set up reserves which we thought we ought to have.

Mr. PECORA. You knew then that your earnings were decreasing, did you not?

Mr. STALKER. No.

Mr. PECORA. They had been decreasing, had they not? You had lost approximately $300,000 a year through the transfer of your bond business to the Group, had you not?

Mr. STALKER. That was an accomplished fact. That was a non-recurring loss, so to speak.

Mr. PECORA. And you had been well aware of the fact that reserves were urgently required and found yourselves unable to provide them; and in the face of that condition you paid the dividend at the increased rate. That is so, is it not?

Mr. STALKER. I do not think it was an increased rate when you add together the dividends previously paid by the Guardian Trust and the Union Trust. I have not got the figures before me, but I think that would be just about the rate those trust companies had been paying.

Mr. PECORA. The last dividend that was declared by the Union Guardian Trust Co. was declared for the quarter ending March 31, 1932, was it not?

Mr. STALKER. I believe so.

Mr. PECORA. That dividend amounted to $50,000 cash, did it not?

Mr. STALKER. Yes.

Mr. PECORA. Did the condition of the bank at that time justify the payment of any dividend?

Mr. STALKER. Looking back now——

Mr. PECORA. No; the conditions as you knew those conditions to be then?

Mr. STALKER. You get there the question of loss of public confidence through a drastic change in dividend action.

Mr. PECORA. Was it because of the fear of the public or the fact that the confidence of your depositors in the bank would be seriously affected that the bank in March 1932 declared that dividend?

Mr. STALKER. I cannot speak for our directors, Mr. Pecora, but I know that that was certainly in my mind.

Mr. PECORA. Was it the moving factor in your mind in favor of the declaration of the dividend in March 1932?

Mr. STALKER. It was.

Mr. PECORA. Could you not tell from the discussion that you heard that the meeting of your board in regard to the declaring of this dividend in March 1932 whether or not that was also in the mind of your associate directors?

Mr. STALKER. I cannot remember very much about the discussion of that dividend. It was a small one. I cannot remember the discussion at all, to tell you the truth.

Mr. PECORA. The condition of the bank in March 1932 was very, very unfortunate, was it not?

Mr. STALKER. It was. Our assets were badly frozen. We believed our assets were sound, but they were frozen.

Mr. PECORA. In the exercise of your own soundest judgment at that time were you in favor of the declaration of any dividend?

Mr. STALKER. From the standpoint of—well, I will put it this way—we were not particularly concerned about the earning aspect, Mr. Pecora; that is, we had every confidence that with conditions restored, as we hoped they would ultimately be——

Mr. PECORA (interposing). Were you still declaring dividends for a 2-year period of time based upon hopes for the future? Had not those hopes sunk pretty low by that time?

Mr. STALKER. The longer you are in going through a depression, the nearer you are to getting out on the other side, supposedly.

Mr. PECORA. And as you were getting deeper and deeper into it you tried more and more to lift yourselves by your own boot straps out of it?

Mr. STALKER. No. But what I was about to say was this: In the case of that dividend or other dividends at that time, the earning aspect of it did not concern us particularly. It was more the cash aspect of it. The amount of cash that we took out of the Trust Co. was relatively insignificant, only $50,000. You could lose more in 10 minutes through some stockholder's loss of confidence than the entire dividend amounted to.

Mr. PECORA. Why was not that considered by the Group itself in determining their dividend policy for that period?

Mr. STALKER. I was not a member of the Group board at that time.

Mr. PECORA. When did you cease being a member of the Group board?

Mr. STALKER. I speak from memory here. I am not too sure of this, Mr. Pecora, but I think it was about the first of 1931.

Mr. PECORA. Did you get out as a member of the Group board voluntarily, or was it at some one's suggestion?

Mr. STALKER. I think—in fact, I know—that they were reducing the membership on that board. It was considered to be too large.

Mr. PECORA. And you were one of those that were dropped?

Mr. STALKER. Yes, sir.

Senator COUZENS. When you got out of the presidency of the Union Guardian Trust Co. what reason did Mr. Smith give you for desiring the change in the presidency?

Mr. STALKER. He did not give any.

Senator COUZENS. And you did not ask for any?

Mr. STALKER. I did not.

Senator COUZENS. Were you conscious of any reason?

Mr. STALKER. No; not particularly.

Senator COUZENS. You did not have much curiosity about your future, when a change took place like that, without having any intimate knowledge of your own or without being advised of any reason.

Mr. Stalker. Of course, the situation as I sensed it was this, that Mr. Longley was considered to be better qualified to handle problems of the Trust Co. under the situation as it existed than I was.

Senator Couzens. Was that conclusion reached by the group board?

Mr. Stalker. There were a number of people, I judge, that were of that opinion, and it was far from me to dispute it.

Mr. Pecora. What was Mr. Longley's business or occupation at that time?

Mr. Stalker. At that time he was already vice chairman of the board.

Mr. Pecora. No; what was his business or occupation?

Mr. Stalker. He was an attorney.

Mr. Pecora. A lawyer. It had then reached the point where it was considered that a lawyer would make a better president of the bank than a banker?

Mr. Stalker. Possibly in the case of a good lawyer and a bad banker, he might.

Mr. Pecora. You had not shown yourself to be a bad banker, judging by the record of your institution prior to becoming a unit of the group. I do not want you to pin medals on yourself, but is not that the fact? The record of your institution under your presidency, prior to your becoming a unit in the group, was one that you could be proud of?

Mr. Stalker. Well, I am not so proud of it now as I was once.

Mr. Pecora. But you were proud of it, and justifiably proud of it, up to the time the bank became a group unit, were you not?

Mr. Stalker. Up to that time I was not president; I was merely an executive vice president. Mr. Blair was president of the bank.

Mr. Pecora. You were president in 1929 sometime, according to the——

Mr. Stalker. Oh; I guess you are right there. I think I was elected at or about the time that it was agreed to be desirable to merge the Guardian Detroit Group and the Union Commerce Corporation.

Mr. Pecora. Had the affairs of your bank in March 1932, or in the early part of 1932, when you ceased being its president and were succeeded by Mr. Longley, reached a stage or condition where a lawyer was considered more useful to the bank as its executive head than a banker?

Mr. Stalker. He evidently was.

Mr. Pecora. I am not casting any aspersions on lawyers now.

Senator Couzens. Perhaps I would if I were examining you.

Mr. Pecora. I do not know anything about Michigan lawyers. Is this the fact, Mr. Stalker, that in view of the set-up of the group and the relationships of the unit banks to that group it was considered imperatively necessary in order to sustain the confidence of the public and of the depositors in the various unit banks of the group as well as in the group itself, for the group to continue to pay dividends and hence for the unit banks to continue to pay dividends to the group?

Mr. Stalker. It was considered desirable.

Mr. Pecora. Was it not virtually rendered necessary as a matter of policy in order to retain the confidence of depositors and of the public stockholders of the Group?

Mr. STALKER. Of course it is a very difficult question for any man sitting on the inside of an institution to determine what the public on the outside of the institution think about it.

Mr. PECORA. Is not that what you have been telling us? That is what the Group board and officers as well as the unit boards and officers were doing—they were thinking of the public reaction?

Mr. STALKER. I spoke for myself, Mr. Pecora; but I have no doubt that there were others who thought the same.

Mr. PECORA. It was that necessity of preserving the confidence of the depositors in the unit bank and of the stockholders in the Group that made it necessary to declare dividends when otherwise they would not have been declared?

Mr. STALKER. I do not want to have any misconception here, sir. I am not prepared to say it was necessary to declare dividends. I think that in determining on the declaration of dividends they were believed to be justified by the circumstances at the time. Consideration was given to the fact that you would by so doing avoid upsetting public confidence and perhaps precipitating runs which might wreck the institutions.

Mr. PECORA. Did you attend as a member any meetings of the board of directors of the Group at which there was discussed the form and the contents of the annual reports put out from time to time by the Group?

Mr. STALKER. I did.

Mr. PECORA. Can you tell this committee, therefore, the reason why the Group at no time in its annual reports included therein a statement of those units of the Group that did not consist of banks.

Mr. STALKER. No; I would not be in position to testify on that. I suppose it was this way, that the Group was primarily an organization whose units were banks and trust companies. It was in the banks and trust companies that the public was chiefly interested. I would surmise that to be the purpose.

Mr. PECORA. Were not the stockholders of the Group interested in all of the units of the Group, including those units that did not consist of banks?

Mr. STALKER. Undoubtedly.

Mr. PECORA. Then why were not the stockholders of the Group permitted to know at any time through the medium of reports issued to them by the Group the condition of those units that were not banks?

Mr. STALKER. I have not before me, Mr. Pecora, any of those annual reports.

Mr. PECORA. Suppose I take a few of them and put them before you for whatever consideration you want to give them in answering these questions [handing documents to the witness].

Mr. STALKER. I note here a reference as I read to the Union Title & Guaranty Co. This is on the first page I come to——

Mr. PECORA. Which report are you looking at?

Mr. STALKER. 1931. I will read this, Mr. Pecora:

> Total operating loss of affiliated institutions, other than banks and trust companies, amounted to $542,957.68, equal to 35 cents per share. During the fourth quarter drastic economies were effected in all of these companies which should result in larger future earnings regardless of any increase in business activities.

That does not seem to be withholding any information.

Mr. PECORA. Is it giving to the stockholders or to the public the full information with regard to the condition of each unit corporation that was not a bank?

Mr. STALKER. No. Of course the length of the report—this is a long report as it is; 47 pages——

Mr. PECORA. It would have to be a long report. because the Group had so many units.

Mr. STALKER. It is a 47-page report, but there is a clear indication here what the net operating results of these units other than banks and trust companies were; and any stockholder was welcome at any time to inquire about the condition of any unit.

Mr. PECORA. We know that any stockholder is entitled or welcome to inquire at any time; but why should it be left to individual stockholders to make inquiry when the information could have been furnished to them as part of the annual report of the Group?

Mr. STALKER. The stockholders all had notice of what the result was. If they were not satisfied or if they desired further information we would probably have heard from it or the Group would have heard from it.

Mr. PECORA. What reason can you give, as a director of the Group, for not having included in the annual reports of the Group a balance sheet statement for each of the nonbank units of the Group similar in form and content to the balance sheet statement embodied in the annual report for those units that were banks?

Mr. STALKER. Less important and less interesting.

Mr. PECORA. Don't you think a stockholder would be just as much interested in learning the financial condition of each and every unit, whether it was a bank unit or not?

Mr. STALKER. With a banking institution the thing that a stockholder, I believe, looks at first would be the deposits, the undivided profits, their cash resources, and liquid resources. Those are the most interesting things, to my way of thinking, in a bank statement, and those are the things which a stockholder looks at first.

Mr. PECORA. But the stockholders of this Group were not bank stockholders, were they? They were stockholders in a group which included in its combination not only banks but nonbanking units.

Mr. STALKER. I will rephrase my answer, sir. The stockholders of the Guardian Detroit Union Group, Inc., in looking at this statement or any similar report that might be made, would be chiefly interested, in my opinion, in connection with the unit banks and trust companies in the cash and liquid resources which those banks had; whereas in the case of the nonbanking units I would think they would be chiefly interested in the net earnings.

Senator COUZENS. Are the net earnings stated for the nonbanking units?

Mr. STALKER. Yes, sir. I just read it, Senator. Shall I read it again?

Senator COUZENS. For each unit?

Mr. STALKER. No; the combination.

Senator COUZENS. Why would they not be interested in each unit rather than the combination of units?

Mr. Stalker. I suppose they would; but there are limitations of space in a report that is going to be read.

Senator Couzens. When you filed your annual statement with the secretary of state or the securities commission did you show the same figures as are indicated in the annual report?

Mr. Stalker. I would not know anything about that, Senator. I was not an active officer of the group at any time.

Mr. Pecora. Will you let me see that report from which you have read the statement?

(The paper referred to was handed to Mr. Pecora.)

Did you know, Mr. Stalker, that for the year 1930 the group reported to the Michigan Securities Commission, in accordance with the laws of the State of Michigan requiring it to make a report, that for that year 1930 there was a deficit sustained by the group of $39,387.57?

Mr. Stalker. If I knew of it, I had forgotten it.

Mr. Pecora. Did you know that in the report which the Group filed with the Michigan Securities Commission for the year 1931 it showed a deficit for that year of $288,930.33?

Mr. Stalker. If I knew that, I had forgotten it. May I inquire whether those are operating deficits or whether they are after losses and charge-offs?

Mr. Pecora. I will show you a photostatic copy of the report filed by the Group with the Michigan Securities Commission for the year 1930 [handing a paper to the witness]. You can see from the face of the report itself what it shows.

Mr. Stalker. I never saw this report before. They would appear to be operating figures.

Mr. Pecora. In this annual report for 1930 the Group informed the Michigan Securities Commission that it had sustained a deficit for the year 1930 of $39,387.57; that statement being reported under an item reading "Statement of profit and loss account for the past 12 months."

Mr. Stalker. Correct.

Mr. Pecora. Mr. Lord, will you come up for a moment, please?

TESTIMONY OF ROBERT O. LORD—Resumed

Mr. Lord, I want to show you this document purporting to be a photostatic reproduction of the annual report for the year 1930 filed with the Michigan Securities Commission by and on behalf of the Detroit Guardian Union Group, Inc. Will you look at it and tell me if the reproduction of the signature reading "Robert O. Lord" appearing thereon is your signature?

Mr. Lord. That is my signature.

Mr. Pecora. Is that a true and correct copy of the report?

Mr. Lord. I would say so.

Mr. Pecora. I offer it in evidence.

The Chairman. Let it be admitted.

(Photostatic reproduction of Annual Report of Guardian Detroit Union Group, Inc., for the year 1930, filed with the Michigan Securities Commission, was received in evidence, marked "Committee's

Exhibit No. 54, Dec. 22, 1933 ", and will be found printed in full at the end of today's transcript.)

Mr. PECORA. While you are still on the stand, Mr. Lord, I show you this other document which purports to be a photostatic reproduction of the annual report for the year 1931 filed by the Guardian Detroit Union Group, Inc., with the Michigan Securities Commission, in accordance with the laws of the State of Michigan, and ask you if you recognize it to be a true and correct copy of such report.

Mr. LORD. I would judge so. It has my signature.

Mr. PECORA. The signature appearing thereon reading "Robert O. Lord" is in your handwriting?

Mr. LORD. Yes, sir.

Mr. PECORA. That is, it is a reproduction of your handwriting?

Mr. LORD. It is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic reproduction of Annual Report of Guardian Detroit Union Group, Inc., for the year 1931, filed with the Michigan Securities Commission, was received in evidence, marked "Committee's Exhibit No. 55, Dec. 22, 1933", and will be found printed in full at the end of this transcript.)

Senator COUZENS. What did it show?

Mr. PECORA. It showed a deficit of $288,930.33.

I want to show you this other document that purports to be a photostatic copy of the annual report for the year 1932 filed by and on behalf of the Guardian Detroit Union Group, Inc., with the Michigan Securities Commission in accordance with the laws of the State of Michigan. Will you look at it and tell me if you recognize it to be a true and correct copy of such a report so filed?

Mr. LORD. That is not my signature.

Mr. PECORA. Is that a true and correct copy of the report?

Mr. LORD. I assume it is; I do not know.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of Annual Report for the year 1932 filed by the Guardian Detroit Union Group, Inc., with the Michigan Securities Commission, was received in evidence, marked "Committee Exhibit No. 56, Dec. 22, 1933," and will be found printed in full at the end of this transcript.)

The CHAIRMAN. Whose signature is it, Mr. Lord?

Mr. LORD. I have no idea.

Senator ADAMS. Whose name is it?

Mr. LORD. My name is signed, but it is not my signature.

Mr. PECORA. There is a signature on this report reading "Robert O. Lord" over the printed word "President", and also a signature on this report reading "C. H. Haberkorn, Jr." over the printed word "Secretary." You say the signature reading "Robert O. Lord" is not in your handwriting?

Mr. LORD. Yes.

Mr. PECORA. Do you recall signing the annual report?

Mr. LORD. I do not recall signing it. I may have signed an annual report, but I did not sign that. That is not my writing.

Mr. PECORA. Do you recognize the signature reading "C. H. Haberkorn, Jr.," as being in the handwriting of Mr. Haberkorn?

Mr. LORD. It is not.

Mr. PECORA. Do you know in whose handwriting the signature reading "Robert O. Lord" is?

Mr. LORD. I do not.

Mr. PECORA. Or the signature reading "C. H. Haberkorn, Jr."?

Mr. LORD. No, sir; I do not.

Senator ADAMS. Did you authorize anybody to sign your name to those documents?

Mr. LORD. I don't recall it. That may possibly be an office copy that was simply filed.

Mr. PECORA. This we obtained from the county clerk's office, where the original is on file.

Mr. LORD. That is not my signature.

Senator ADAMS. Is that a verified signature?

Mr. PECORA. Yes, sir. This report is sworn to under date of February 28, 1933. I am referring now to the 1932 report. It is sworn to before Pauline P. Mosher, notary public. Do you know Pauline P. Mosher?

Mr. LORD. Mrs. Mosher, I believe, was Mr. Haberkorn's secretary, but that is not my signature, nor is it Mr. Haberkorn's signature.

Mr. PECORA. Do you recognize any of the handwriting of those signatures?

Mr. LORD. May I look at it again? [After examining paper.] I do not know Mrs. Mosher's signature, so I could not say I recognize it.

Mr. PECORA. You know that under the laws of the State of Michigan you, as president of this Group, were required to sign and verify and file with the commission, and in the county clerk's office, an annual report?

Mr. LORD. I have always understood so.

Mr. PECORA. Do you recall having signed, sworn to, and caused to be filed an annual report, as president of the Group, for the year 1931?

Mr. LORD. I do not recall one way or the other.

Mr. PECORA. What is that?

Mr. LORD. I do not recall it; no.

The CHAIRMAN. Can you look at that report and signify whether now you think it is a correct report?

Mr. LORD. I do not know, Senator. I assume it is a photostatic copy of the record that was filed.

Mr. PECORA. This report, if the committee please, reports a deficit for the Group for the year 1932 of $714,331.26.

Now, have you any reason to doubt the correctness of the statement appearing on committee's exhibit 56, which is the annual report for 1932 filed on behalf of the Group, and which shows a deficit of $714,331.26 for the year 1932?

Mr. LORD. No; I have not any reason to doubt it.

Mr. PECORA. Have you reason to doubt the accuracy of the figures shown on the annual report for 1931, which is marked "Committee's Exhibit No. 55", and which reports a deficit of $288.930.33 for the year?

Mr. Lord. No; I have no reason to doubt it.

Mr. Pecora. Have you any reason to doubt the accuracy of the statement shown in the annual report for 1930, which is marked "Committee's Exhibit No. 54?"

Mr. Lord. No.

Mr. Pecora. And which reports a deficit for that calendar year of $39,387.57.

Mr. Lord. No; I have not any reason to doubt it.

Mr. Pecora. Mr. Lord, were any of these deficits reported to the stockholders of the Group in any report or statement issued by the Group to them?

Mr. Lord. I would have to check that very carefully. I would say not.

Mr. Pecora. Why not? Why wasn't it done?

Mr. Lord. Mr. Pecora, I would have to go over the entire statement and check it to be able to answer it properly. The figures for the annual report, and the figures of that report—those that I signed—were prepared by the Group's accounting department, competent men, and I had no reason to question the accuracy of the figures.

Mr. Pecora. What figures are you talking about now, the figures shown in the printed annual reports issued to stockholders?

Mr. Lord. I am talking about both the figures in the printed annual report and the figures in the report to the State of Michigan.

Senator Couzens. After signing the report to the State commission showing a loss, when you came to sign the 1930 annual report, would you not notice that there was nothing shown in the report to indicate that the Group had suffered a loss?

Mr. Lord. I do not recall the date of that report for 1930.

Mr. Pecora. Are you referring to the report filed with the Michigan Securities Commission?

Mr. Lord. Yes. I do not recall the date of it.

Senator Couzens. It was for the calendar year, was it not?

Mr. Pecora. I will give you the date of it. [After examining papers.] I will have to take that statement back. The report does not have any date, nor does it appear to have been sworn to, for the year 1930. That is another thing that somewhat mystifies me, although the printed form furnished by the Michigan Securities Commission required to be filled out, requires its being sworn to by the officers signing it. Do you know why you did not swear to the 1930 report filed with the Michigan Securities Commission?

Mr. Lord. I have no idea. The reports are prepared in the accounting department, and brought to me for signature, and I sign them.

The Chairman. This report, exhibit 56, was the last you made.

Mr. Lord. I did not hear you, Senator.

The Chairman. This exhibit no. 56——

Mr. Lord. What year is that?

The Chairman. It is sworn to the 27th day of February 1933.

Mr. Lord. That was the last report that was made so far as I know.

Mr. Pecora. Let me read this portion of the form of the printed annual report for 1930, which the Michigan Securities Commission

required to be signed and sworn to by the president and secretary of your company [reading]:

We, the president and secretary of the Guardian Detroit Union Group, Inc., do solemnly swear that the above statement is true to the best of our knowledge and belief, and that this report has been carefully filled out and fully and correctly exhibits the true state of the several matters contained, as shown by the books of the company.

You signed that report immediately under that portion of the statement that I have read to you. When you signed it, did you know the report to correctly exhibit the true state of the several matters that are set forth in the report?

Mr. Lord. I assumed it did.

Mr. Pecora. The form of the oath required to be taken, or the form of verification, rather, required by this form——

Mr. Lord. To the best of my knowledge and belief it was a correct statement, Mr. Pecora.

Mr. Pecora. Do you know why you did not swear to it?

Mr. Lord. I have not any recollection. There certainly was no intention to avoid swearing to it, not the slightest.

Mr. Pecora. I notice, from exhibit no. 55, that the annual report for 1931, which you say was signed by you, likewise was not sworn to, although the form required that it be sworn to.

Mr. Lord. There was not any reason why it should not have been sworn to, and I do not know why it was not.

Mr. Pecora. I notice that the report for 1932, which bears your name and Mr. Haberkorn's name as secretary—which signatures you say are not the signatures either of yourself or Mr. Haberkorn—is sworn to, although not signed by you.

Mr. Lord. I have not any idea how it was done, because I did not sign it.

Mr. Pecora. Did you have any attorney or attorneys who prepared these reports for filing with the Michigan Securities Commission?

Mr. Lord. I assume the reports are prepared, or were prepared in the accounting department.

Mr. Pecora. Were the formalities of the filing of these reports and the execution by its executive officers, supervised or attended to by attorneys for the company or for you?

Mr. Lord. I do not recall whether they were in those cases or not.

Mr. Pecora. I ask you again what I asked you a few minutes ago. Why was not the deficit of $39,387.57 that is shown in the annual report of your group filed with the Michigan Securities Commission, reported to the stockholders of the group?

Mr. Lord. Mr. Pecora, I would have to study the annual report for 1930 and check it with the figures in order to explain the reason why it was not reported.

Senator Couzens. Does that deficit occur after dividends or before dividends?

Mr. Lord. I do not know, Senator. I would have to consult the officers——

Senator Couzens. May I ask, Mr. Pecora, if that statement filed with the Michigan Securities Commission, showing a deficit of some $39,000, was——

Mr. Lord. That is after dividends.

Senator COUZENS. After dividends?

Mr. LORD. Yes.

Senator COUZENS. You said previously that you did not know.

Mr. LORD. I did not understand your question. It was after dividends.

Mr. PECORA. It is after dividends, apparently, because the report shows on its face that dividends for the year 1930 were paid in the aggregate sum of $4,930,991.28.

Senator COUZENS. So, the payment of that dividend created a deficit?

Mr. PECORA. Yes.

Senator COUZENS. Does the report show any figures as to what the earnings were of that year?

Mr. PECORA. It shows income as follows: Interest and discount, $39,905.07; dividends received or accrued, $5,123,372.60; profits on sales of securities, $16,796.88. As against those items of income, the following expense items are shown: Miscellaneous expense, $67,155.84; interest paid $121.88; insurance, $1,039.56; stationery, printing, and office supplies, $17,942.26;advertising, $39,900.32; salaries, $86,575.95; taxes, other than Federal income, $75,735.03; dividends, common stock, $4,930,991.28; making a total of expenses, and so forth, of $5,219,462.12.

Mr. LORD. Mr. Pecora, may I try to explain? So far as my understanding is concerned, in the matter of the signatures on these reports, if I understand it, the original report is sent to Lansing, and these office copies which you have here, photostats, I believe, are the ones that are filed in the Detroit office, and I believe that if you go to the Lansing office you will find the report in complete and proper form, so far as the signatures and acknowledgments are concerned. That is the only explanation I could give for those two signatures, which are neither mine nor Mr. Haberkorn's.

Mr. PECORA. That is a plausible explanation, and probably the correct explanation.

Mr. LORD. I think it is the correct explanation.

Senator COUZENS. Would you please explain what you mean in this report by "dividends received or accrued"? You mean they are accrued after the declaration, or before?

Mr. LORD. Senator, I would have to ask one of the accountants about that. My guess would be that they were all dividends received.

Senator COUZENS. Can someone here explain to me what "dividends accrued" means in that report?

TESTIMONY OF W. A. EUBANK, DETROIT, MICH.

The CHAIRMAN. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. EUBANK. I do.

Mr. PECORA. Just one or two preliminary questions, Mr. Eubank. Were you at any time connected with the Guardian Detroit Union Group, Inc.?

Mr. EUBANK. Yes, sir; from about August of 1930 until along in the summer of this year.

Mr. PECORA. In what capacity?

Mr. EUBANK. I had charge of the accounting.

Mr. PECORA. Now, will you answer Senator Couzens' question?

Senator COUZENS. Will you explain what that means on the annual report, showing the dividends received and accrued?

Mr. PECORA. May I suggest, Senator, so that the record will not show any confusion as to which Annual Report you mean, that you are referring to the annual report marked "Exhibit No. 54"?

Senator COUZENS. Yes.

Mr. EUBANK. For one thing, a bank may have declared a dividend as of December 31, and mailed their check on December 31, which we did not receive until the first day we were operating at the beginning of the year.

Senator COUZENS. How would you get advice of the accrued dividends in that event?

Mr. EUBANK. They would advise us by letter.

Senator COUZENS. That they had declared the dividend?

Mr. EUBANK. I will not say in every case. We had a good understanding that the dividends would be paid, and I presume every one was confirmed by letter. We certainly had a basis for every accrual that we picked up, and off hand I do not recall a single instance where I took as an accrual something that we did not receive.

Senator COUZENS. You mean that you did not receive later?

Mr. EUBANK. Within a few days.

Senator COUZENS. It would have been received——

Mr. EUBANK. It was just a matter of delay in the mails and getting the checks in. It is physically impossible sometimes, where a bank waits until the last day to mail a check, to put it through on our books the same day.

TESTIMONY OF ROBERT O. LORD—Resumed

Senator COUZENS. Mr. Lord, I am unable to find in this 1930 report——

Mr. PECORA. That is the printed annual report to the stockholders?

Senator COUZENS. The one I have just been talking to Mr. Eubank about. I am unable to find in this report any reference to the loss that you reported to the Michigan Securities Commission, and yet I find this on page 5 of the report under discussion. I find this language——

Mr. PECORA. That is Exhibit No. 36.

Senator COUZENS. I quote [reading]:

> The policy of maintaining a highly liquid position is naturally reflected in reduced earnings. Nevertheless your company earned more than sufficient to pay during 1930 regular quarterly dividends at the rate of $2 per annum, and an extra dividend at the rate of $1.20 per annum.

I assume that that is literally correct, according to the report that you made to the Michigan Securities Commission, but the inference is perfectly plain that in paying those dividends you did not incur a loss, while the fact is that you did incur a loss.

Mr. LORD. Senator, all these figures come to me from the accounting department. I would have to check them very carefully before being in a position to testify. It would appear, on the face of the

statement here, that the reference is made to the dividends themselves, which amounted to $4,930,000 and odd, against dividends received of $5,123,000. I would like to check it. This is all beyond my scope, and a matter of accounting, and I do not like to answer the question without knowing that I am accurate in my reply.

Senator COUZENS. While you are looking that up, some of your staff ought to find this out, because in the 1931 annual report which you filed with the Michigan Securities Commission you show a net deficit of $288,930.33. and having paid out $3,085,416.38 in dividends; and in the 1931 printed reports which were mailed to the public, on page 7, I find the following (reading):

> For the year ended December 31, 1931, the net earnings of the banks and trust companies of the Group, after all expenses of operation and after setting aside adequate reserves for taxes and depreciation of banking quarters and equipment, but before charge-offs, were $3,887,052.86, or at the rate of $2.51 per share on the 1,544,844 shares of the group stock $20 par value outstanding.

This shows that you had a net earning.

Mr. LORD. Senator, just a minute——

Senator COUZENS. But the report to the commission shows a loss.

Mr. LORD. That shows in the banks and trust companies.

Mr. PECORA. That means on the bank units.

Senator COUZENS. I am coming to that. I understand English, and I understand the inference anyone gets from such a statement as that. No reference is made there at all to the fact that the Group as a whole—and this is a Group statement—showed any deficit for the year 1931. That is perfectly plain. I understand it, and if I were reading that report as a stockholder of the Group, I would under no circumstances understand that you had sustained a loss of over $288,000.

Mr. LORD. That statement refers to the banks and trust company units in the Group.

Senator COUZENS. Yes; I understand.

Mr. LORD. The report in question is the report of the Group corporation.

Mr. PECORA. But the annual report to the stockholders was also a report of the Group, was it not?

Mr. LORD. Yes. It was the report of the Group.

Mr. PECORA. Why did you then use that language in the 1931 report to the stockholders, that has been read to you by Senator Couzens?

Mr. LORD. Mr. Pecora, that language is a perfectly true statement.

Mr. PECORA. It is a half truth, is it not, insofar as it purports to give a picture of the Group as a whole?

Mr. LORD. I would not say so. It certainly was not intended as a half truth.

Mr. PECORA. Is there anything in this annual report to the stockholders for the year 1931 that informs the stockholders of the fact that for the year the Group sustained a deficit or loss of $288,930.33?

Mr. LORD. I do not recall any such statement in that report; no.

Mr. PECORA. Why was that information, then, withheld in this annual report to the stockholders from the Group?

Mr. Lord. I suppose it never occurred to us to put it in. I do not know the reason. I would have to go back into the details and study the figures.

Mr. Pecora. Suppose you go back into the details.

Mr. Lord. It would take me considerable time to study these figures.

Mr. Pecora. Was not this report gotten out as a matter of policy by the group?

Mr. Lord. Certainly it was gotten out as a matter of policy.

Mr. Pecora. And did that policy include the feature of not advising the stockholders of the actual deficit or loss incurred by the company, or the Group, rather, for that year 1931?

Mr. Lord. That is a very difficult question to answer, the way you ask it. Did it include a feature not to do something?

Mr. Pecora. I asked it advisedly and purposely in that form, because I want your answer.

Mr. Lord. I do not know how to answer a question of that kind.

Mr. Pecora. I am assuming that there was some reason for not telling the stockholders of the group, in the annual report of the Group that was issued to them, that the company, for the year 1931, incurred a loss or deficit of over $288,000. Is that a false assumption?

Mr. Lord. I would not know whether it was or not.

Mr. Pecora. If you would not know, who in the world would know?

Mr. Lord. Will you repeat the question, please?

(The reporter read the pending question.)

Mr. Lord. I do not know of any reason for not telling them. Perhaps it should have been put in the report.

Mr. Pecora. Why was it not put in the report?

Mr. Lord. I do not know why it was not.

Mr. Pecora. If you do not know, who would know? You were the executive head of the group. Now, if you do not know, who would know?

Mr. Lord. The report was sent out after a full discussion of the details of it and the form of it, by the executive committee.

Mr. Pecora. And you participated in such discussion.

Mr. Lord. I assume I did; yes, sir.

Mr. Pecora. Then, why can you not tell us why the deficit incurred for the year was not stated in the annual report issued by the Group to its stockholders?

Mr. Lord. I do not know why it was not.

Senator Adams. Mr. Lord, I had assumed that the purpose of the formation of the group was to make profits. It had no other purpose than that?

Mr. Lord. I suppose that is the purpose of every business.

Senator Adams. Would it not seem, then, that the accomplishment, or failure to accomplish the specific purpose would be one of the things the stockholders would be interested in?

Mr. Lord. I would think so; yes. Probably we were at fault in not including that detail.

Mr. Pecora. Would it not also seem that there was a studious concealment——

Mr. LORD. No, sir.

Mr. PECORA (continuing). From the stockholders of the Group, of the fact that the Group, in the year 1931, operated in a fashion that incurred a loss or deficit of over $288,000?

Mr. LORD. I would certainly say not, sir.

Mr. PECORA. Do you think that if the Group, for the year 1931, had made a substantial profit, that the amount of that profit, and the fact of the making of that profit, would not have been mentioned in the annual report to the stockholders?

Mr. LORD. I do not know whether it would have been or not.

Mr. PECORA. Oh!

Mr. LORD. But there certainly was no effort at concealment.

Senator COUZENS. Mr. Lord has said there was no studious attempt not to inform the stockholders, and yet for 3 successive years, 1930, 1931, and 1932, the annual report to the Michigan Securities Commission showed substantial losses, and no report was ever made to the stockholders to that effect, for 3 successive years. For the year 1932 your report showed a loss of $714,331.26, and no report was ever made to the stockholders, nor for the two previous years.

Mr. LORD. There was no annual report made to the stockholders——

Senator COUZENS. Certainly not; and yet you say there was no studious attempt to keep from the stockholders the fact that for three successive years you had sustained a loss.

Mr. PECORA. That is the fact, is it not, Mr. Lord?

Mr. LORD. As you state it, it is the fact, but there was no studious attempt to deceive the stockholders or anybody else.

Mr. PECORA. And you are utterly unable to give this committee a single reason why, in the annual reports issued to the stockholders for each of those three years, 1930, 1931, and 1932, no mention whatsoever was made of the loss sustained by the Group in each one of those years?

Mr. LORD. I do not know why it was omitted.

Senator ADAMS. I think, Mr. Pecora, we can infer why. I think we do not advertise our losses.

Mr. PECORA. I would say that is a studious concealment.

Senator ADAMS. Yes.

Mr. PECORA. But this witness denies that.

The CHAIRMAN. For each of those years the group paid a dividend.

Mr. LORD. Yes, sir.

Senator COUZENS. Was not a part of the consideration given to this subject the fact that in nearly all of your units there was a lot of the Group stock up as security for loans?

Mr. LORD. No, sir; that was not so. I never heard the question of leaving out those figures discussed at any time by anybody.

Senator COUZENS. As a matter of fact, the units in that Group did have a lot of the Group stock as security for loans.

Mr. LORD. That was explained yesterday, Senator Couzens.

Senator COUZENS. So, the publication of a statement showing that the group was operating at a loss for 3 successive years would obviously affect the value of the security back of these loans, would it not?

Mr. LORD. I do not know.

Senator COUZENS. Here is a trained banker who does not know——

Mr. LORD. Senator, it might have.

Mr. PECORA. Mr. Lord, let me ask you who actually drafted and prepared the text of the printed report issued by the group to its stockholders for the year 1930.

Mr. LORD. I do not know, sir. I think several people probably took part in it.

Mr. PECORA. Who were those several people?

Mr. LORD. I probably took part in it; Mr. Patterson probably took part in it; Mr. Kanzler may have taken part in it. Other members of the executive committee may have taken part in it.

Mr. PECORA. If you took part in it, it would seem to me that you ought to know the part you took in it. In taking the part which you took in it, can you not tell this committee why you did not include in the report, or suggest that there be included in the report to the stockholders, a mention of this loss or deficit?

Mr. LORD. Mr. Pecora, all of the figures that came to us for use in the report came from the accounting department.

Mr. PECORA. It was that same accounting department that supplied the figures embodied in the report to the Michigan Securities Commission for that year?

Mr. LORD. That is true.

Mr. PECORA. Now, you apparently had the same sets of figures coming from the same source, for the purposes of preparing, respectively, the annual report to the stockholders and the annual report to the Michigan Securities Commission. Why was not the outstanding fact as to whether or not the Group operated at a profit or at a loss for the year, embodied in the report to the stockholders?

Mr. LORD. The committee which prepared this report were furnished with these figures which were in the report. Why they were not furnished with those figures also showing further details, I do not know.

Mr. PECORA. Why did this committee, or the group of persons who prepared the annual report to the stockholders for the year 1931, say specifically to the stockholders in the report for that year, the statement that appears on page 7 of the printed report, reading as follows [reading]:

> For the year ended December 31, 1931, the net earnings of the banks and trust companies of the Group, after all expenses of operation and after setting aside adequate reserves for taxes and depreciation of banking quarters and equipment, but before charge-offs, were $3,887,052.86, or at the rate of $2.51 per share on the 1,544,844 shares of the group stock $20 par value outstanding?

Mr. LORD. Why did they say that?

Mr. PECORA. Yes.

Mr. LORD. Because, I take it, it was the fact.

Mr. PECORA. It was also the fact that the Group as a whole, for the year, operated at a loss. Why was not the loss mentioned, that the Group as a whole sustained, in view of the fact that you mentioned specifically, in dollars and cents, a profit accruing to the Group from only a part of its business, namely, the part represented by the units that were banks?

Mr. LORD. Mr. Pecora, this report is broken down so that it contains later on a reference to the losses in the affiliates, and the thing

was divided in two. I do not know why these exactly similar figures were not used. I think it was because it was felt it was more to the interest of the stockholders, and they were more interested in knowing the earnings of the banks and trust companies which constituted the principal assets of that company.

Mr. PECORA. Well, now, Mr. Lord, don't you think the stockholders were more interested in knowing whether or not the group as a whole conducted its business at a profit or a loss for the year?

Mr. LORD. It is a natural question for you to ask. Yes; it is the natural thing that they should.

Mr. PECORA. Why weren't they told, then, whether or not the group operated at a loss for the year?

Mr. LORD. Mr. Pecora, I don't know. But I want to say this, that the men in this outfit are not men that indulge in studious concealment, and I do not like that inference. You know the men that are in this group.

Mr. PECORA. I don't know them except as I have met them here, and it wouldn't make any difference whether I did know them or not. I am being guided by the facts and not by personalities.

The CHAIRMAN. Did the losses come from the banks or the other members of the group?

Mr. LORD. The losses that are referred to to create the deficit are some of the expenses of the Group Corporation.

The CHAIRMAN. The expenses of the Group Corporation. That included all banks as well as the trust companies?

Mr. LORD. No; of the corporation itself.

Mr. PECORA. Thas is, the group itself and all of its units?

Mr. LORD. Yes.

Mr. PECORA. Mr. Chairman, it is now about 1 o'clock.

The CHAIRMAN. The subcommittee will take a recess until 2 o'clock p.m.

Mr. LORD. Mr. Pecora, do you want me back again?

Mr. PECORA. Mr. Stalker, I am through with you.

Mr. STALKER. I thank you very much.

(Thereupon, at 1:05 p.m., Friday, Dec. 22, 1933, the subcommittee recessed until 2 p.m. the same day, at the same place.)

AFTER RECESS

The subcommittee resumed at 2 p.m. on the expiration of the noon recess.

The CHAIRMAN. The subcommittee will resume. You may proceed, Mr. Pecora.

TESTIMONY OF ROBERT O. LORD—Resumed

Mr. PECORA. Mr. Lord, the other day when you were on the witness stand you identified photostatic copy of what purported to be the proposed report of stockholders for the year 1932 that it was intended to issue by or on behalf of the Guardian Detroit Union Group, Inc.

Mr. LORD. I do not know that that was more than a few preliminary paragraphs from that report, Mr. Pecora.

Mr. PECORA. Yes; it was part of the report that it was contemplated to issue to the stockholders of the Group for the year 1932, was it not?

Mr. LORD. It was some paragraphs in preparation of the report, certainly.

Mr. PECORA. Yes. Now the opening statement, or the first paragraph in that proposed report, which is addressed "To the Stockholders Guardian Detroit Union Group, Inc." reads as follows:

> The liquidity of our banking institutions has continued to improve notwithstanding the conditions existing in the year 1932.

Was that statement an accurate statement?

Mr. LORD. I would have to figure it out.

Mr. PECORA. Well, do you not know generally whether the liquidity of the banking units in the group continued to improve throughout the year 1932, notwithstanding the general conditions that existed in that year?

Mr. LORD. I know definitely that the Guardian National Bank of Commerce continued to improve. I would say that the Trust Co. did not.

Mr. PECORA. No; but the statement here is that—

> The liquidity of our banking institutions has continued to improve, notwithstanding the conditions existing in the year 1932.

Now that was intended to refer to all of the banking units of the Group, was it not?

Mr. LORD. Either that or to take the aggregate figures.

Mr. PECORA. What do you mean by taking the aggregate figures? Do you mean giving the net result of all the banks as a group?

Mr. LORD. In the annual reports previously there was usually included a statement of the aggregate of all the resources and liabilities of the bank. Mr. Pecora, let me say this, that that statement or that report was never sent to the stockholders.

Mr. PECORA. I know that.

Mr. LORD. And was simply material put down to go over by the executive committee, and I do not see that what was said in that is particularly pertinent, because such statement, whether true or not true, did not go to any stockholders.

Mr. PECORA. Well, while it might not be pertinent in some respects, it might be pertinent as evincing or evidencing a policy on the part of the officers and directors of the group with regard to the kind of information that they would give to their stockholders.

Mr. LORD. I would not think so, Mr. Pecora. That particular sentence might have been prepared by a single individual. I do not know who prepared that.

Mr. PECORA. Well; as a matter of fact, as you now recall it had the liquidity of the bank units of the group continued to improve throughout the year 1932?

Mr. LORD. As I recall it, taking the aggregate figures, it showed a better liquidity statement than the year previous. That is my recollection.

Mr. PECORA. How much better do you think it was?

Mr. LORD. I do not recall. That is my impression.

Mr. Pecora. Now it appears from the annual report for the year 1930 filed by the group with the Michigan Securities Commission, and which has been marked in evidence "Committee's Exhibit No. 54", that outside of dividends that were paid to the stockholders for that year by the group, the largest disbursement is charged to the item of salaries, namely $86,575.95. I notice that in the annual report filed with the securities commission for the year 1931 the item of expense attributed to salaries had increased to $136,624.24, but that the deficit for the year 1931 reported to the securities commission had increased to the sum of $288,930.33, as compared with the deficit of the preceding year of $39,000 plus. As deficits were growing the salaries to the officers of the group were being increased?

Mr. Lord. Mr. Pecora, the salaries, the individual salaries, were not increased. At the inception of the group many officers contributed time and effort to group activities and their salaries were paid by the particular units with which they han been connected, which was not a fair allocation of the salaries. For instance, as I recall it, the first year of the group my own salary was paid, if I recollect, entirely by the bank. As a matter of fact, I think that the total number of employees in the group in 1932 was considerably less than in 1930, and so far as individual salaries were concerned, there were certainly no increases. They were cutting salaries.

Mr. Pecora. Now, let us see about that. The annual report filed with the commission for the year 1932, marked here as "Committee Exhibit No. 56", shows a salaries expense item of $161,280.65, as compared with $136,000 and odd for 1931 and $86,000 and odd for 1930.

Mr. Lord. That is what I tried to explain. I think that was probably the allocation of salaries as between a particular unit with which an individual working for the group may have been connected also. Now, I cannot give you the detail. I think that either Mr. Eubank or Mr. Patterson can tell you more about those salaries than I can. But so far as those individual salaries were concerned we were taking cuts. Would it not clarify it if you asked Mr. Eubanks about these salaries—how they were handled?

Mr. Pecora. Well, I will ask him a number of questions later on. I just wanted to see how much you, as president of the group, could tell us about these things. Now, I notice in the annual report for the year 1930 filed with the securities commission, an expense item of interest paid $121.88. Whereas in the annual report filed for the year 1931 with the commission the item of expense of interest paid is $18,649.83; and that item of expense of interest paid for the year 1932, according to the filed report, was $722,164.59. What was that interest paid on in the year 1932 to that aggregate amount of $722,000?

Mr. Lord. On the obligations of the Group Co., which I believe I testified to in connection with the endorsements of Mr. Edsel B. Ford and Mr. Mott in connection with the funds that the Ford Motor Co. loaned to the Group Co., and other loans of the Group Corporation, Mr. Pecora.

Mr. Pecora. In other words, during the year 1932 the borrowings that were contracted by the group because of business conditions, or the condition of its own business, were such that nearly three quar-

ters of a million dollars in interest charges had to be paid on those borrowings for that year; is that right?

Mr. LORD. I would say so; yes, sir.

Mr. PECORA. And in that year, despite that fact, the group paid dividends to its stockholders in the aggregate sum of $375,134, according to the filed report for the year 1932?

Mr. LORD. Yes, sir.

Mr. PECORA. And there was a deficit that year, according to this filed report, of $714,331.26?

Mr. LORD. Yes, sir.

Mr. PECORA. Now will you tell the committee, please, why in the face of these conditions the group paid dividends that year of $375,000 plus, when it had a deficit of $714,000 for the year?

Mr. LORD. Mr. Pecora, I think to a great extent the group directors were influenced in the payment of dividends by the general fear and unrest and the conditions that were existent at that time. In the matter of the payment of these dividends, before that April dividend, which was the only one paid in 1932—before the payment of that dividend there was a very full discussion with the banks that were creditors of the Group Co., and it was upon their advice that that small payment was made. They felt that it was better for the entire situation that the Group Co. should pay that dividend, in view of the very serious unrest and unsettlement and fear in the city of Detroit.

Mr. PECORA. Well, will you explain that more in detail? Instead of using general terms such as "Because of the general fear", tell us exactly what you mean by that.

Mr. LORD. Mr. Pecora, there were rumors up and down the street of bank troubles in Chicago, New York, New Orleans, Cleveland, and particularly in Detroit, in our own city.

Mr. PECORA. Were they mere rumors, or were they observations or comments based on fact?

Mr. LORD. They were what I should consider as rumors.

Mr. PECORA. Not based on fact?

Mr. LORD. Well, very few of them.

Mr. PECORA. Which were based on fact?

Mr. LORD. As to the condition of the Guardian National Bank of Commerce, as to it closing its doors; as to a million things that were absolutely not based upon fact.

Mr. PECORA. I asked you which were based on fact?

Mr. LORD. I do not know any that were based on fact. You know what rumors are.

Mr. PECORA. I know that very often rumors come pretty near hitting the bull's eye. I wondered if any of these rumors were in that category.

Mr. LORD. I do not think they did, Mr. Pecora.

Mr. PECORA. Well, you said that, because of fears produced by these rumors, the board of the group declared and paid out dividends amounting to $375,000 approximately in the year 1932, or for part of that year, in the face of a business that resulted in that year in a total deficit of $714,000 plus. In other words, you are telling us that this dividend was paid in the year 1932 because of rumors. Is that so?

Mr. LORD. Very largely.

Mr. PECORA. Do you think that is a safe basis upon which to declare dividends?

Mr. LORD. Mr. Pecora, the dividend was paid in order to stabilize the entire situation.

Mr. PECORA. How was it being stabilized by the payment of these dividends?

Mr. LORD. That was the judgment not only of our own directors but of the banks to whom the Group Co. was indebted.

Mr. PECORA. Now, how were these conditions stabilized by the payment of these dividends?

Mr. LORD. It increased confidence in the institutions.

Mr. PECORA. In order to pay these dividends the group had to have dividends declared by the unit banks?

Mr. LORD. Yes, sir.

Mr. PECORA. Then the dividend declaration by the group was actuated by a desire to allay fears on the part of depositors with respect to the condition of the banks, is that right?

Mr. LORD. Allay the fears of the depositors—I do not know whether in respect to the condition of the banks, but certainly allay the fears of the depositors in respect to the condition of all banks.

Mr. PECORA. Particularly their banks?

Mr. LORD. Yes; I assume so.

Mr. PECORA. All right. Then the policy adopted by the board, so far as I am able to follow you in your present statement of it, was that the directors of this group in order to inspire or promote or encourage a faith on the part of the depositors in their banks was one that operated, as a matter of fact, to weaken the banks through the declaration and payment of unwise dividends; is that not so?

Mr. LORD. I would say, Mr. Pecora, that a bank would be very much more weakened by an increase in the velocity of a run or the speed of withdrawals than it would by the declaration of a moderate dividend.

Mr. PECORA. Then in order to prevent those runs or to prevent an acceleration of any run that migh have been started the banks were weakened financially through the declaration of unwise dividends? Is that not so?

Mr. LORD. I would not say that they were unwise dividends.

Mr. PECORA. Well, they were unwise to the extent that they were not dictated by earnings?

Mr. LORD. I do not recall which units paid the dividends that year.

Mr. PECORA. Was not this a situation where the banks needed a blood transfusion, and the kind of blood transfusion they got was by pumping ice water into them?

Mr. LORD. I would not say so, sir. The stockholders pumped $27,000,000 into the situation. I do not call $27,000,000 ice water.

Mr. PECORA. Now as a matter of fact the condition of the banks could be described as anemic at that time, could it not?

Mr. LORD. Well, I would not use that word. If you want to use it—the condition of a very large percentage of the banks in this country was anemic at this time.

Mr. PECORA. Well, that included the banks under your jurisdiction and supervision?

Mr. LORD. And elsewhere.

Mr. PECORA. And to relieve them of this anemic condition their resources were drained to the extent of the dividends that they declared and paid?

Mr. LORD. I would rather say that they paid out a certain amount in dividends to improve the condition than to speak of it as draining the resources.

Mr. PECORA. If it had not been for the declaration of those dividends for the purposes that you have described here there would have been that much more money available for the depositors, would there not?

Mr. LORD. Presumably.

Mr. PECORA. I will now call Mr. Eubank.

Mr. LORD. Do you want me to stay here?

Mr. PECORA. Yes.

TESTIMONY OF W. A. EUBANK—Resumed

Mr. PECORA. How long, Mr. Eubank, were you connected with the Guardian Detroit Union Group, Inc.?

Mr. EUBANK. From about August 1930 until, I believe, it was the latter part of September this year.

Mr. PECORA. You were an auditor?

Mr. EUBANK. No, sir.

Mr. PECORA. What was your position specifically?

Mr. EUBANK. I had charge of the accounting of the holding company. I did not attempt to audit, though—to go out and audit units, if that is the inference.

Mr. PECORA. You were in charge of its accounting system?

Mr. EUBANK. The assembly of the figures; yes.

Mr. PECORA. As the man in charge of the accounting department of the Group did you compile or gather or marshal the facts and figures that were embodied or were intended to be embodied or incorporated in the annual report for the year 1930 that was issued to the stockholders of that group and a copy of which report is marked here as "Committee's Exhibit No. 36"?

Mr. EUBANK. I am not absolutely certain that I had the absolute assembly of them, but I think I assisted that year. I am positive about '31 and '32.

Mr. PECORA. You did have charge of the preparation or compilation of the figures for the years 1931 and 1932?

Mr. EUBANK. And I also assisted in the assembly of the figures for '31. At that particular time, I was fairly new at the work, having been——

Mr. PECORA (interposing). You mean for 1930?

Mr. EUBANK. For 1930; pardon me. In 1930, I was new at it, and there were some things that I did not comprehend. I was afraid to assume entire responsibility. At that time I assisted.

Mr. PECORA. And did you render similar services in connection with the preparation and filing of the annual reports that were filed in behalf of the group with the Michigan Securities Commission for the years 1930, 1931, and 1932 respectively?

Mr. EUBANK. I believe I did; quite sure.

Mr. PECORA. What figures in general did you compile and give to the officers or directors of the group for the purpose of making not only the reports to the Securities Commission but also the reports to the stockholders?

Mr. EUBANK. May I explain the nature of the annual report first? I think that will clear up one thing.

Mr. PECORA. Which annual report, the one for the stockholders or the report to the Securities Commission?

Mr. EUBANK. The report to the Securities Commission.

Mr. PECORA. All right.

Mr. EUBANK. The Group Co. had approximately 35 or 40 subsidiaries, each of which had to file a separate report to the secretary of state. The holding company also filed its report to the secretary of state, which did not include any of the figures of the subsidiaries. The report was on its own figures. In the annual report to the stockholders the Group Co. is one component in an adding machine recap for the whole works. It is a consolidated picture. In other words, in the assembly of earnings figures, for instance, the Group Co. is treated the same as the Guardian National Bank of Commerce. It is just one more unit.

Mr. PECORA. In other words, the Group Co.'s report to the Securities Commission and the Group Co.'s report to its stockholders were based upon the same set of figures that you compiled and submitted to the officers and directors of the Group?

Mr. EUBANK. It would be physically impossible to make the figures to the stockholders in a consolidated statement identical with the figures in the annual report to the secretary of state, as a matter of mechanics.

Mr. PECORA. Why not? Why couldn't it be done?

Mr. EUBANK. I mean the summary of the figures. For the reason that in compiling the figures for the consolidated report it is an adding-machine run of all the units, including the holding company.

Mr. PECORA. Isn't that true of the report to the stockholders as well as the report to the Securities Commission?

Mr. EUBANK. I am not clear on that.

Mr. PECORA. Well, now, let me put it another way: The Michigan law required the group as a separate corporate entity to file annually with the Michigan Securities Commission a report showing finally the net profits or net loss?

Mr. EUBANK. That is right.

Mr. PECORA. And those figures were compiled and presented to the officers and directors of the group in order to enable them to make out their annual report required by the laws of the State of Michigan?

Mr. EUBANK. Yes, sir.

Mr. PECORA. Now, in the making of a report by the Group to its stockholders, would not the same facts, the same figures, be set forth?

Mr. EUBANK. The same figures would be set forth if we had the Group Co.'s statement in the annual folder as a separate statement.

Mr. PECORA. Didn't you have the Group Co. report issued as a separate document from the statement to its stockholders?

Mr. EUBANK. The Group Co. alone?

Mr. PECORA. Yes.

Mr. EUBANK. In the publication of the Group Co.'s own figures it would not be possible to show the balance sheets of banks and trust companies, unless——

Mr. PECORA (interposing). Would it be possible to show the net profit or loss for the year?

Mr. EUBANK. Yes.

Mr. PECORA. Of the Group as a corporate entity?

Mr. EUBANK. That is right.

Mr. PECORA. And that figure would be the same shown in the annual report filed by the Group with the Securities Commission, would it not?

Mr. EUBANK. I don't see how it is possible. I explained that an earning of a bank could never be a part of an earning of the holding company itself. The Group Co. never took into its earnings a bank's earnings.

Mr. PECORA. Well, it could only take into its earnings that proportion or part of the bank's earnings that the Group received as dividend on its stock?

Mr. EUBANK. That is correct.

Mr. PECORA. Now, when the Group issued a report annually to its stockholders did you or did you not compile figures, as the man in charge of the accounting of the Group, and present those figures to the officers and directors of the Group so that the officers and directors would be enabled to see whether or not the Group for the year showed a profit or loss?

Mr. EUBANK. I think we did.

Mr. PECORA. You did do that, didn't you?

Mr. EUBANK. I am quite sure of it; yes.

Mr. PECORA. Do you know why those figures were not included in any annual report issued by the Group to its stockholders?

Mr. EUBANK. Well, I will give you my opinion, but I have no reason to—I am not trying to confuse it with any opinions of others. I don't think it would be a sensible thing to do under the circumstances.

Mr. PECORA. You don't think what would be a sensible thing to do?

Mr. EUBANK. To publish individual statements of the subsidiaries along with the banks.

Mr. PECORA. I didn't ask you anything about that.

Mr. EUBANK. I don't comprehend you, I must confess. I have explained that the figures of the Group Co. are one set of figures and the individual banks are separate figures.

Mr. PECORA. I will try to get it in another way, Mr. Eubank. I have before me the exhibit known as "Committee's Exhibit No. 55" of this date, which is a copy of the Annual Report filed by the group with the Michigan Securities Commission for the year 1931, and it shows a deficit for the year suffered or incurred by the group as a separate corporate entity of $288,930.33. You are familiar with that fact, are you not?

Mr. EUBANK. Yes, sir.

Mr. PECORA. Now, did you, as the man in charge of the accounting for the group, compile and submit to the officers and directors

of the group figures that showed this deficit of two hundred and eighty-eight thousand and odd dollars that was set forth in the annual report for that year which was filed by the group with the securities commission?

Mr. EUBANK. Yes, sir.

Mr. PECORA. Did you also compile, prepare, or submit to the officers and directors of the group the figures which would have enabled that group, through its officers and directors, in its annual report to its stockholders, to show that deficit that was reported in the report filed with the securities commission?

Mr. EUBANK. Yes, sir.

Mr. PECORA. That being the case, do you know why, in its annual report to the stockholders for the year 1931, that deficit of $288,000 plus is nowhere set forth?

Mr. EUBANK. I would not say that I have their reasons. I have my reasons.

Mr. PECORA. Give us what you think were the reasons.

Mr. EUBANK. It would have had a reactionary effect on the public and might have caused a collapse of the banking institutions we were operating.

Mr. PECORA. I think that is a very sensible reason—that is, I think it is a very accurate reason; but this is the first time I have been able to get it from anybody, and I thank you very much for it, Mr. Eubank.

Now I want to resume my examination of Mr. Lord.

TESTIMONY OF ROBERT O. LORD—Resumed

Mr. PECORA. Mr. Lord, did you hear the testimony just given by Mr. Eubank?

Mr. LORD. I did, sir.

Mr. PECORA. Did you hear the reason that he gave as his opinion of why the officers and directors of the Group in the annual report which they caused to be issued to the stockholders for the year 1931 failed to make any mention of the fact that the company for the year 1931 sustained a deficit of over $288,000?

Mr. LORD. Mr. Eubank's reason?

Mr. PECORA. Yes.

Mr. LORD. Yes; I heard it.

Mr. PECORA. What would you say about that? Do you think he was mistaken?

Mr. LORD. He gave that as his opinion.

Mr. PECORA. Yes. Do you think his opinion was sound?

Mr. LORD. It was a good reason.

Mr. PECORA. Do you think the opinion was sound? Or let me put it another way: Do you think his opinion coincided with the fact?

Mr. LORD. Mr. Pecora, that question was never discussed with the directors.

Mr. PECORA. I am discussing it now, Mr. Lord.

Mr. LORD. I am speaking about those figures. Those figures were never discussed, and I cannot say whether that was the fact or the opinion of the board. The annual report figures which were fur-

nished to the committee for incorporation in their report were the figures that were included in the report.

Senator COUZENS. That is not the testimony of Mr. Eubank.

Mr. LORD. I don't recall——

Mr. PECORA (interposing). Mr. Eubank's testimony boils down to this, that the figures that he presented as the man in charge of the accounting for the company—by "the company" I mean the Group Co.—to the officers and directors of the Group showing the condition of business for the year 1931 included figures which showed a deficit of $288,000 plus. You heard his testimony to that effect?

Mr. LORD. I heard his testimony, and I didn't think at the time that he understood the question, because I do not believe that that annual report was ever discussed by any committee or any board.

Mr. PECORA. Well, how in the world was it gotten up if it was not gotten up as a result of discussion by anybody? Was there any conservatory of a peculiar kind attached to the offices of the Group where these reports grew and sprouted by themselves and took the form in which they appear in the printed report that is in evidence here?

Mr. LORD. I would say no to that.

Mr. PECORA. Because, if there was, I would like to know what kind of fertilizing material was used on that soil. How were these reports prepared?

Mr. LORD. Which are you speaking of, these reports here?

Mr. PECORA. These annual reports to the stockholders.

Mr. LORD. I think I have answered that quetsion. Those reports were prepared by individuals.

Mr. PECORA. Who were the individuals?

Mr. LORD. Several individuals from the accounting department, myself, other officers of the institution working on them. They were then presented for discussion and consideration by the executive committee.

Mr. PECORA. Well, what discussion was had by any of the executive committee which led to the decision not to mention in the reports to the stockholders the deficit that had been incurred for the year?

Mr. LORD. I don't think there was any discussion. I don't recall any.

Mr. PECORA. What did the discussion relate to? If it did not relate to the matter of showing a profit or loss, whatever it might have been, for the year, what in the world did it relate to?

Mr. LORD. The earnings of the unit institutions, to their statements of condition, to the general facts regarding business, and the business of the organization.

Mr. PECORA. Aren't all of those things summarized in a deficit or profit, as the case might be?

Mr. LORD. I don't think your question is clear, Mr. Pecora.

Mr. PECORA. What was the principal purpose of making any report annually to the stockholders of the group?

Mr. LORD. To advise the stockholders of the condition of their assets.

Mr. PECORA. And to advise them of the condition of the company and the business of the company, wasn't it?

Mr. LORD. I would think so.

Mr. Pecora. And the principal thing that a stockholder would be interested in knowing is whether or not his company conducted business at a profit or at a loss for the year, is it not?

Mr. Lord. I think it was one of the things he should know; yes.

Mr. Pecora. Then why wasn't he told that in the annual report, if you think it is one of the things he should have known?

Mr. Lord. Mr. Pecora, I have attempted this morning to answer that question.

Mr. Pecora. I don't think you have answered it yet. You have not yet given a single reason why no mention was made of the deficit incurred in any one of these years in the annual reports issued to the stockholders, have you?

Mr. Lord. I have not.

Mr. Pecora. Then why do you say you have told me that already?

Mr. Lord. I said I had attempted to answer your question.

Mr. Pecora. Now will you please make another attempt, and this time see if you can't answer it?

Mr. Lord. Will you please repeat the question?

The Shorthand Reporter (reading):

> Then why wasn't he told that in the annual report, if you think it is one of the things he should have known?

Mr. Lord. Mr. Pecora, I dont' know, unless the form of the report as it was prepared by the committee was the form in which they thought it should be prepared.

Now, let me say this, that if these reports did not include information that the stockholder should have, we were unquestionably subject to criticism. I will admit that.

The Chairman. These people who prepared the report knew about the deficit, didnt' they?

Mr. Lord. I don't know, at the time when those reports were prepared, but I assume they did, Senator.

The Chairman. Did you know the deficit?

Mr. Lord. I don't know that I did at the time of the preparation of the annual report. I don't know when these reports were filed and when I saw that statement.

Senator Couzens. You do not agree with Mr. Eubank, then, that prepared this statement and——

Mr. Lord (interposing). Not in that form. He may have had a lot of different figures that would contain the same information. I don't recall ever seeing a statement presented at an executive committee meeting in that form or in that general form.

Mr. Pecora. Well, did you ever see a report, compilation of figures, that showed definitely that the company for the year had operated at a loss?

Mr. Lord. I assume I did; yes, sir.

Mr. Pecora. Is that anything more than an assumption?

Mr. Lord. Well, yes; I did. It was my duty to do it.

Mr. Pecora. If you did, why didn't you, as the executive head of the company and as the man who signed the report to the stockholders, see to it that mention of the deficit was made in the report issued to the stockholders?

Mr. Lord. I suppose I should have, Mr. Pecora.

Mr. PECORA. I know you should have. I agree with you. That is the whole trouble, that you should have. But I am asking you why you did not?

Mr. LORD. Because I though the information contained in the report was the pertinent information to the stockholders of the Group.

Mr. PECORA. Why, in the last few minutes you told this committee under oath that you felt that the stockholders should have had this information about the deficit.

Mr. LORD. I do now.

Mr. PECORA. Oh, you did not think so then?

Mr. LORD. I did not; no. I do now. I think the stockholder should have every bit of information about his corporation that is possible to give him.

Mr. PECORA. Why didn't you think the stickholders should have had the information concerning the deficit at the time these annual reports were sent to the stockholders?

Mr. LORD. Because I thought the information we gave him was the information he should have had.

Mr. PECORA. Why didn't you think then that the information he should have had would have been such as would have told him that the company had operated at a deficit for the year?

Mr. LORD. I thought we did give him the information that he was entitled to have at that time.

Mr. PECORA. Now, did you, at that time, think he was entitled to the information that showed the company operated at a loss?

Mr. LORD. I did not, at that time.

Mr. PECORA. Why didn't you?

Mr. LORD. Because I thought we gave him the information that showed the picture accurately, showed the earnings of the units, and the mere fact that the corporation of itself had additional expenses, the statement that was made in the annual report was a statement of the unit earnings, and we did not attempt to cover the detailed operating set-up.

Mr. PECORA. Now, Mr. Lord, in view of that answer that you have just made I am going to read something to you. What I want to read to you is this extract from letter written by the then chief national bank examiner for the seventh district, that included banks in Michigan, to the Comptroller of the Currency under date of June 14, 1932. This is the extract:

The Guardian Group—

Referring to the Guardian Detroit Union Group, Incorporated—

was somewhat of a promotion scheme, and in order to show satisfactory earnings in the holding company dividends were declared far beyond the point of conservation and losses were not taken in the banks. They have always been extremely reluctant to charge off losses and have always desired that they be taken from earnings, but the record of earnings of these banks is most unsatisfactory, and this plan would not permit the elimination of many losses.

It is very apparent that Mr. Lord of the Guardian Group is not a banker and he never has been and never will be one. He is more of a glad-hand promotion type, and he always chooses the path of least resistance, which has now created the present problem with the Group.

Do you think those comments were too severe, unwarranted?

Mr. LORD. Do you think it is for me to answer that?

Mr. PECORA. I would like to have you answer it, in view of the philosophy you have expressed here.

Mr. LORD. I don't think I should be asked to answer a criticism like that.

Mr. PECORA. I think that is all of this witness at this time.

Mr. LORD. May I say a few things?

Mr. PECORA. All right.

Mr. LORD. In the testimony of yesterday there was considerable comment on the directors' loans in the Guardian National Bank of Commerce. I would like to give for the benefit of those directors a little information as to the status of those loans last summer.

Senator COUZENS. Let us find out whether those records come from the bank or from the individual statement of the borrower.

Mr. LORD. They come from information received from the individual.

Senator COUZENS. And are not the records of the bank?

Mr. LORD. They are not, because the records of the bank are not available to any director.

Senator COUZENS. I just want to make the record clear.

Mr. LORD. This information was compiled by conferring with these directors.

The CHAIRMAN. It is really in the nature of hearsay?

Mr. LORD. I would not call direct contact with a director hearsay.

The CHAIRMAN. He is not making the statement; you are making the statement.

Mr. LORD. I am making the statement based on information received from the director.

Senator COUZENS. I thought yesterday you gave us a long list of directors who have paid off.

Mr. LORD. Yes; but this rather consolidates some of the information which I thought would be of interest to this committee. The newspapers came out with substantial-sized figures of directors' loans. I think in justice to those directors this committee should have the additional information. If you don't care to admit it, I will not give it.

Senator COUZENS. I am perfectly willing that the directors should be treated justly, but I understood yesterday that you gave for the record a long list of directors who had paid.

Mr. LORD. I gave a list of some of the reductions, Senator.

Senator COUZENS. You are not going to repeat those?

Mr. LORD. No, sir; I am not. On November 9 there were 62 directors in the group. Of those 25 had no loans at all. At the time those loans were originally made all were secured by ample or more than ample collateral, except in 1 or 2 cases where the loan had been made on a satisfactory statement of the borrower.

Senator COUZENS. Are you going to separate those?

Mr. LORD. The only one I recall at this time was Leslie Green, who made it on a statement of his own holdings of his own private business.

A check-up made last summer with all of those directors who could be reached indicated that of the directors who were borrowing

at the date of the examination at least 16 had paid their direct loans in full, 10 had paid their indirect obligations in full, and others had made very substantial reductions.

Furthermore, based on information given to me by those directors, an aggregate of approximately $2,100,000 had been paid on those loans up to last summer, which represented about 50 percent of the amount of the loans as of November 9, 1932.

In addition thereto $1,250,000 had been paid on loans which directors had endorsed or guaranteed, representing about 40 percent of such indirect obligations.

It may also be of interest to know that of the $3,700,000 approximately of direct loans to corporations in which the directors and officers were largely interested, more than $2,100,000 of such loans had already been paid by last summer, representing about 60 percent of the total of such loans.

It seems to me that that is an indication of a fine record of those directors' loans, which, in the newspapers at least, were subject to some criticism.

I would like to make one more statement. I have been severely criticized in this meeting by Mr. Leyburn. Whether it is a question of personal antagonism to me or not, I do not know. I feel that it is entirely unjust. My experience as a banker extended from 1906 to 1932, during which period I started as a clerk or an office boy in the Harris Trust & Savings Bank in Chicago and worked up to the position of one of the senior vice presidents before I went to Detroit.

I would like to say two or three more things before I leave the stand. In commenting on the general situation as regards the group, the actions taken by the group managers and by the unit banks to which reference was made, most, if not all, of those actions were taken with one purpose in mind—to protect the interest of all the depositors against the effects of the panic on the part of a few. So far as I personally know, no one connected with the Group made a dime out of any of these transactions. Many of the directors and officers, including myself, lost sizable fortunes. So far as the Guardian National Bank of Commerce is concerned, it seems to me that evidence of the inherent soundness of that institution is indicated by the fact that with only moderate aid from the R.F.C., amounting to something less than $28,000,000 or $30,000,000, that bank has arranged to pay in less than 1 year approximately $105,-000,000 of its December 31, 1932, deposits out of $138,000,000, and that during most of this period that bank was closed.

Furthermore, in my opinion under a careful administration of the remaining assets of that bank, I believe the depositors will receive 100 cents on the dollar in due course.

The CHAIRMAN. Who was the Comptroller who took over the bank?

Mr. LORD. Who was the Comptroller?

The CHAIRMAN. Yes.

Mr. LORD. I did not get the date of that communication——

The CHAIRMAN. No; when the bank was taken over, who was the Comptroller?

Mr. LORD. Mr. Awalt, Acting Comptroller.

Mr. PECORA. Mr. Lord, I will have some evidence to present to this committee when sessions are resumed within the next 2 weeks

with regard to the condition of these banks at the time they were closed.

(Witness temporarily excused.)

TESTIMONY OF BERT K. PATTERSON, CHICAGO, ILL.

The CHAIRMAN. Mr. Patterson, do you solemnly swear that the testimony you will give at this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PATTERSON. I do.

Mr. PECORA. Your full name and address, please.

Mr. PATTERSON. Bert K. Patterson, 7606 Bosworth Avenue, Chicago.

Mr. PECORA. What at the present time is your business or occupation?

Mr. PATTERSON. Bank examiner, Federal Reserve Bank of Chicago.

Mr. PECORA. Were you at one time connected with the corporation called the Guardian Detroit Union Group, Inc.?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. In what capacity?

Mr. PATTERSON. Vice president and treasurer.

Mr. PECORA. Were you executive vice president for a period?

Mr. PATTERSON. Yes.

Mr. PECORA. When did you first become connected with that corporation?

Mr. PATTERSON. August 16, 1929.

Mr. PECORA. That was shortly after it was incorporated under its original corporate name of Guardian Detroit Group, Inc.?

Mr. PATTERSON. About 3 months afterward.

Senator COUZENS. Prior to that what was your occupation? Prior to going with the Guardian Group, what was your occupation?

Mr. PATTERSON. I was chief national bank examiner of the seventh Federal Reserve district, at Chicago.

Senator COUZENS. For how long?

Mr. PATTERSON. One year.

Mr. PECORA. Did that take in the Michigan banks?

Mr. PATTERSON. Yes.

Mr. PECORA. That is, the seventh district?

Mr. PATTERSON. A part of the State of Michigan.

Mr. PECORA. Including the city of Detroit?

Mr. PATTERSON. Yes, sir.

Senator COUZENS. Prior to being chief bank examiner for the seventh Federal Reserve district, what was your occupation?

Mr. PATTERSON. Chief bank examiner at Minneapolis.

Senator COUZENS. For how long?

Mr. PATTERSON. Four years.

Senator COUZENS. Prior to that, what was your occupation?

Mr. PATTERSON. I was national bank examiner bearing the commission of the Comptroller of the Currency dated June 3, 1918.

Senator COUZENS. For how long were you such examiner?

Mr. PATTERSON. From June 3, 1918, until approximately September 1, 1924.

Senator COUZENS. At that time you went with the Minneapolis Federal Reserve district?

Mr. PATTERSON. I was promoted.

Mr. PECORA. You resigned as a member of the examiner's staff of the Comptroller of the Currency to become vice president and treasurer of the Guardian Detroit Group, did you not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Who extended to you the offer to join with the Guardian Detroit Group as one of its officers?

Mr. PATTERSON. Mr. Robert O. Lord.

Mr. PECORA. What was the salary that you were receiving as chief national bank examiner for the seventh district at the time that you resigned to become connected with the Guardian Detroit Group?

Mr. PATTERSON. $14,000 a year.

Mr. PECORA. What was the salary that you received upon becoming an officer of the group?

Mr. PATTERSON. $16,000 a year.

Mr. PECORA. Any stock?

Mr. PATTERSON. No, sir.

Mr. PECORA. Any bonuses?

Mr. PATTERSON. No, sir. Well, in 1929, at the end of the year; yes.

Mr. PECORA. How much of a bonus did you receive?

Mr. PATTERSON. $3,000 at that time.

Mr. PECORA. At that time did the other officers of the group receive bonuses in addition to their salaries?

Mr. PATTERSON. I do not know, positively.

Mr. PECORA. Who fixed the bonuses?

Mr. PATTERSON. I do not know that, either.

The CHAIRMAN. Did you have to do with organizing or creating this Detroit Group?

Mr. PATTERSON. I believe not, sir.

The CHAIRMAN. You did not advise or negotiate or arrange for the organization of the group?

Mr. PATTERSON. I do not believe so.

Mr. PECORA. At the time you resigned as chief national bank examiner for the seventh district to become an officer of the Guardian Detroit Union Group, or, as it was then called, the Guardian Detroit Group, Inc., were you promised a bonus in addition to your salary?

Mr. PATTERSON. No, sir.

Mr. PECORA. Nothing was said about a bonus then?

Mr. PATTERSON. No, sir.

Mr. PECORA. Were you given, at the time you became an officer of the group, any options to acquire any of the stock of the group at any preferential price?

Mr. PATTERSON. Not an option, Mr. Pecora. I signed a contract on October 1, 1929, to purchase 300 shares of the stock.

Mr. PECORA. At what price?

Mr. PATTERSON. $275 a share.

Mr. PECORA. What was the market price then?

Mr. PATTERSON. I cannot remember now.

Mr. PECORA. Was it more than that?

Mr. PATTERSON. Slightly more than that.

Mr. PECORA. Did you exercise the option?

Mr. PATTERSON. No, sir; I never purchased it.

Senator ADAMS. When you say you signed a contract, was it an obligatory contract or an option?

Mr. PATTERSON. It was an obligatory contract.

Senator ADAMS. Why was it not carried out, then?

Mr. PATTERSON. Because I could not pay for it.

Senator ADAMS. I think that is a complete answer.

Mr. PECORA. You heard the testimony of Mr. Lord given to this committee during the current week, did you not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. You heard all of it?

Mr. PATTERSON. I believe I did.

Mr. PECORA. Did you also hear the testimony given by Mr. Eubank this afternoon?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. As I recall the testimony of Mr. Lord, he referred to you more than once as one of the officers of the group who helped to make up the annual reports that were issued by the group to its stockholders. Do you recall that reference to you in Mr. Lord's testimony?

Mr. PATTERSON. Yes, sir; I do.

Mr. PECORA. Were you one of the officers who helped to prepare the annual reports issued to the stockholders by the group?

Mr. PATTERSON. Yes, sir. I aided.

Mr. PECORA. Can you tell us who actually dictated or drafted the textual form of these annual reports to the stockholders?

Mr. PATTERSON. Mr. Pecora, the text of the report was prepared by several individuals, just as Mr. Lord has testified. He did a part of it. I don't believe I prepared any of the text. There were probably four or five other people, including some members of different committees, who aided them.

Mr. PECORA. Do you know who those persons were, those four or five other persons?

Mr. PATTERSON. It occurs to me that Colonel Walsh was one; Mr. Kanzler, Mr. Bodman; I believe Dr. Murphy was asked at different times, or suggested.

Mr. PECORA. Do you know any reason why the annual report issued to the stockholders of the group for the year 1930 made no mention therein of the fact that in that year the group incurred a deficit of $39,387.57?

Mr. PATTERSON. There was no intention to make a misstatement in regard to it.

Mr. PECORA. Was there any intention to omit the statement or any information concerning a deficit?

Mr. PATTERSON. No, sir.

Mr. PECORA. Can you account for the fact that no such mention of the deficit was made in that report?

Mr. PATTERSON. Except that the report was intended as a consolidated report and as brief a report as possible.

Mr. PECORA. Was it in the interest of brevity that a line or two was not included in the report setting forth for that year that the bank showed a deficit of $39,387.57?

Mr. PATTERSON. Yes; I think it was.

Mr. PECORA. Mr. Patterson, do you mean to tell this committee that in the annual report issued to the stockholders by the group for the year 1930, which comprises a printed document of 39 pages exclusive

of the cover, that in the interest of brevity a simple statement was not included in this 39-page report to the effect, in words or substance, that the company for that year operated at a loss of thirty-nine-thousand-and-odd dollars?

Mr. PATTERSON. There are 39 pages there, but a great deal of it was made up of bank statements.

Mr. PECORA. I know that.

Mr. PATTERSON. The textual matter is relatively brief.

Mr. PECORA. Do you mean to say that in the preparation or compilation of this 39-page report no room could have been found for a line or two which simply would have informed the stockholders of the group that a deficit of thirty-nine-thousand-and-odd dollars had been incurred?

Mr. PATTERSON. Certainly; I will agree to that.

Mr. PECORA. Then the reason why it was not mentioned was not because it was desired to abbreviate the report as much as possible, was it?

Mr. PATTERSON. That was not the main reason; no.

Mr. PECORA. What was the main reason?

Mr. PATTERSON. I don't suppose that——

Senator ADAMS. To abbreviate the information.

Mr. PATTERSON. What was that?

Mr. PECORA. Senator Adams attempted to answer the question for you by suggesting that it was done to abbreviate the information.

Mr. PATTERSON. I was going to say——

Mr. PECORA. What were you going to say?

Mr. PATTERSON. I was going to say that the whole text of the report was intended as a consolidated one, so far as the earnings were concerned.

Mr. PECORA. Can you give the committee any reason why there was entirely omitted from this report to the stockholders any reference to the fact that the company had incurred a deficit for that year of thirty-nine-thousand-and-odd dollars?

Mr. PATTERSON. I cannot give you any reason.

Mr. PECORA. Can you give any reason why in the preparation of the annual report to the stockholders for the year 1931 no mention was made of the fact that in that year the group operated at a loss of $288,930.33?

Mr. PATTERSON. There never was any discussion about that particular point in the preparation of the report, Mr. Pecora.

Mr. PECORA. Let me ask you your opinion now as to whether or not the stockholders were entitled to such information from their company?

Mr. PATTERSON. Perhaps my opinion would not be worth anything.

Mr. PECORA. I would like to have it, whether it is worth anything or not.

Mr. PATTERSON. I say they were entitled to it; yes, sir.

Mr. PECORA. Did you participate in the various discussions that, according to Mr. Lord, were had from time to time in connection with the preparation and issuance of these annual reports to stockholders?

Mr. PATTERSON. Yes; I did.

Mr. Pecora. Did you in any of those discussions tell your other conferees your view or opinion that the stockholders were entitled to information showing that the company had operated at a loss?

Mr. Patterson. We had that always in mind. The particular point that you are speaking of was not discussed, as I say.

Mr. Pecora. What did you have always in mind?

Mr. Patterson. That the stockholders were entitled to all the information.

Mr. Pecora. If you always had it in mind in those discussions, why was it not mentioned in the reports?

Mr. Patterson. I say it was not discussed as to that particular point.

Mr. Pecora. Do you know upon whose judgment the reports were so prepared and drafted as to omit mention of the fact that the company had operated at a loss?

Mr. Patterson. I do not think there was anyone who suggested views on that particular point, for the reason that it was not, as I say, particularly discussed, so far as I recall.

The Chairman. You say that the object of the report was to advise the stockholders about the earnings of the company?

Mr. Patterson. Yes, sir.

The Chairman. Is it a fair statement of the earnings if it shows only earnings and does not show expenses or losses or a deficit?

Mr. Patterson. The earnings, as I recall them, are expressed net, I believe, Senator; I am not sure without reference to it.

Senator Couzens. You heard Mr. Eubank's testimony as to his reason for the deficit being left out. Would you agree with him?

Mr. Patterson. I do not recall what he said, now—exactly his language.

Senator Couzens. I understand him to express the view—and he is here and may correct me if I am inaccurate—that they did not think it was advisable to let the public know that they had been operating at a deficit. Would that be one of your reasons for not putting it in the annual report?

Mr. Patterson. No, sir.

The Chairman. You say the report shows the net earnings. If there was a deficit there were no net earnings.

Mr. Patterson. I meant the consolidated figures. Where one unit would probably show profit and another unit would show a loss, the aggregate of the two would be a net profit or loss.

The Chairman. This is a report by the company. It does not show any net earnings; it shows a deficit.

Mr. Patterson. Which report are you referring to, Senator?

Mr. Pecora. The report filed with the securities commission.

Mr. Patterson. Yes; that is a report by that corporation, which did not include any of its affiliates.

Mr. Pecora. The report to the stockholders of the group could easily have shown whether or not the company or the group operated at a loss?

Mr. Patterson. Yes; it could.

Mr. Pecora. Now, in view of what you have said, if it was a fact that there was no discussion among the officers or directors who

worked on the preparation of the report to the stockholders, let me for the purpose of possibly refreshing your recollection read to you the following extract from the minutes of the meeting of the operating committee of the group held on May 15, 1931, which recites you as among those present [reading]:

The chairman referred to a resolution passed at the last meeting of the executive committee providing for the preparation of a composite statement of condition of all banks and trust companies in the group, to be published after the next bank call in June. A form was submitted, and after a general discussion was approved with minor corrections. A small quantity will be set up in large type on cards 22 by 18 inches for display purposes. It was the consensus that individual bank statements be prepared along the same lines as the consolidated form, in large type, and both placed on display in a favorable position in each unit bank. It was recommended that every customer who evidences an interest in the units of the group should be given a reduced mimeographed copy of these statements with a remark something along these lines: "We are extremely proud of the statements of this bank and the Guardian Detroit Union Group, Inc., of which we are a member. We should like you to go over these figures, for we believe you as a customer of the bank will be as proud of the excellent showing as we are."

The next sentence in the minutes is—

The reason for this is obvious.

Is it not also equally obvious to you now, Mr. Patterson if it was not in 1930 and 1931, when you collaborated in the preparation of these annual reports to the stockholders of the group, why no mention was made in those annual reports to the stockholders of the fact that the company was operating at a loss, and hence a fact that might not make a stockholder or a customer of the unit bank proud of the group?

Mr. PATTERSON. The term "obvious" there—I don't know what is meant by it.

Mr. PECORA. Well, answer my question.

Mr. PATTERSON. What is the question?

(The pending question was read by the reporter as above recorded.)

Mr. PATTERSON. I do not believe the consolidated companies were operating at a loss in 1931, Mr. Pecora.

Mr. PECORA. All I know is that the report filed by the group with the Michigan Securities Commission for the year 1931 reports a deficit of $288,000 plus.

Mr. PATTERSON. I referred to the units of the group when I said I did not believe they were operating at a loss in 1931.

Mr. PECORA. The group was operating at a loss in 1931, was it not?

Mr. PATTERSON. The Group Corporation, as one of the component parts of the entire organization; yes.

Mr. PECORA. The Group Corporation was the big corporation of which the other companies were units. In other words, the Group Corporation was the entire entity that comprised twenty-odd companies, including banks, as units, was it not?

Mr. PATTERSON. I suppose a construction of that sort is permissible.

Mr. PECORA. Therefore it was this large corporate entity that comprised the smaller units.

Mr. PATTERSON. Yes.

Mr. PECORA. And it was operated at a loss not only in 1930 but in 1931 and 1932?

Mr. PATTERSON. That is correct.

Mr. PECORA. And we are discussing here the report of that corporate entity known as the "group"?

Mr. PATTERSON. That is correct.

Mr. PECORA. It is obvious to you now why the group officers and directors in publishing to their stockholders their annual reports did not mention the fact that the group operated at a loss in each of those years?

Mr. PATTERSON. I say again that the subject of reporting that separately was never discussed, to my knowledge. There was never any intention of making a misstatement regarding it when the report to the stockholders was made.

Mr. PECORA. Why was emphasis placed in these annual reports upon consolidated statements of earnings and profits of the banking units of the group if it was not to instill in the stockholders a faith and a confidence and a reliance upon the security and the stability and the soundness of the group?

Mr. PATTERSON. I do not think it was emphasized.

Mr. PECORA. It was mentioned. Whether emphasized or not, it was mentioned, and no mention was made of the net deficit.

Mr. PATTERSON. That is true.

Mr. PECORA. Was that done by design or by accident?

Mr. PATTERSON. Not by design.

Mr. PECORA. Then it was done by accident?

Mr. PATTERSON. It was never discussed.

Mr. PECORA. What was the reason that you never discussed it?

Mr. PATTERSON. I do not know.

Mr. PECORA. You were there for the purpose of discussing the things that would be told to the stockholders in the annual report, were you not?

Mr. PATTERSON. Part of the time; yes.

Mr. PECORA. Did it not ever occur to you to bring up for discussion the question of reporting to the stockholders the deficit under which the company operated?

Mr. PATTERSON. The whole report, Mr. Pecora, was arranged on the basis of consolidated figures, and those figures were given to the stockholders in good faith in that manner.

Mr. PECORA. Mr. Chairman, I am tired of hearing answers of that sort, and I suggest that we adjourn—it is half past three—until January 3.

The CHAIRMAN. Did you continue as vice president of this group until the receivership was begun?

Mr. PATTERSON. Until March 11, 1933.

The CHAIRMAN. What happened then?

Mr. PATTERSON. I resigned.

Senator COUZENS. Who was your superior officer in the Federal Reserve bank?

Mr. PATTERSON. I had the commission of Mr. Stephens.

Senator COUZENS. What is his position?

Mr. PATTERSON. Federal Reserve agent.

Mr. PECORA. Mr. Chairman, I respectfully ask that you announce to the witnesses who are under subpena, with the exception of Mr. Eubank, to return here on January 3. We do not need Mr. Stalker either.

The CHAIRMAN. We will excuse Mr. Stalker and Mr. Eubank. All other witnesses under subpena will appear here at 10 a.m. on January 3 next. The committee will now adjourn to meet again on January 3, 1934, at 10 o'clock, in this room when we will resume the hearings.

(Whereupon, at 3:30 p.m., the subcommittee adjourned until Wednesday, Jan. 3, 1934, at 10 a.m.)

COMMITTEE EXHIBIT NO. 54, DECEMBER 22, 1933

(This report must be on file before March 1st, 1931. A filing fee of ONE DOLLAR must accompany this report.)

ANNUAL REPORT 1930

(Name of Corporation) GUARDIAN DETROIT UNION GROUP, INC.; (Street Address) Griswold at Fort; City, Detroit; State, Michigan.

Date of Incorporation, May 10, 1929.

MICHIGAN SECURITIES COMMISSION,

SIRS:—In accordance with Section 28 of Act 220, Public Acts of 1923, as amended, the undersigned Secretary of the above Company, respectfully submits the following report of its condition on the thirty-first day of December, 1930.

1. Financial Statement.

	Authorized.	Issued.	Issued During Year.	Par Value.
Common Stock	$50,000,000	$30,896,880	$4,843,360	$20.00
Preferred Stock	$ none	$	$	$
No Par Stock	Shs. none	Shs.	Shs.	

This statement should reflect the condition of Company after closing current year, and must balance.

Assets	Amount	Liabilities	Amount
Cash	$45,883.96	Common Stock Outstanding	$30,896,880.00
Notes Receivable		Preferred Stock Outstanding	
Accounts Receivable		No Par Stock Outstanding	
Inventory—Materials	647.94	Notes Payable	
Inventory—Mfd. Products		Mortgages	
Real Estate & Buildings		Trade Acceptances	
Machinery & Equipment		Accounts Payable	
Office Equipment		Sinking Fund	
Patterns		Reserve for	
Prepaid Expense		Other Liabilities	
Advances	202.02	Capital Surplus	8,095,664.93
Investments	40,947,540.00	Paid in Surplus	2,292,500.00
Interest & Dividends Receivable	47,322.93	Surplus (after closing 12-31-30)	
Good Will			
Commissions		Total	41,285,044.93
Organization Expenses	204,060.51		
Promotion			
Patents			
Deficit—12-31-30	39,387.57		
Total	41,285,044.93		

2. Statement of Profit and Loss Account for the past twelve months. (If a new corporation, from date of organization.) The footing MUST BALANCE.

Expense.		Income.	
To Deficit in Surplus 12-31-29		By Surplus 12-31-29	
Returns and Allowances		Sales	
Cost of Sales		Services	
Manufacturing Expense		Rents	
Administrative Expense		Commissions	
Miscellaneous Expense	$67, 155. 84	Miscellaneous	
Commission Stock Sales		Interest & Discount	$39, 905. 07
Repairs & Replacements		Div. Received or Accrued	5, 123, 372. 60
Interest Paid	121. 88	Appreciation	
Insurance	1, 039. 56	Profits on Sales of Sec	16, 796. 88
Sta., Printing & Off. Supp	17, 942. 26		
Advertising	39, 900. 32		
Salaries	86, 575. 95		
Taxes—other than Fed. Income	75, 735. 03		
Dividends, Common Stock	4, 930, 991. 28		
Dividends, Preferred Stock			
Dividends, No Par Stock			
Net Surplus, 12-31-30		Deficit—12-31-30	39, 387. 57
Total	$5, 219, 462. 12	Total	$5, 219, 462. 12

Any entries affecting Surplus account and not passing through Profit and Loss account must be explained in a statement or letter attached.

3. Statement, showing the consideration received from the stock issued since date of filing original application. (From date of last report if previous report has been filed.)

Shares received		Par value	Shares issued
10, 000	Peoples National Bank of Jackson	$20. 00	17, 500
1, 500	City Nat'l Bank & Trust Co., Niles	100. 00	4, 125
30, 000	Capital National Bank of Lansing	20. 00	36, 000
10, 000	Grand Rapids National Bank	100. 00	45, 000
6, 000	First National Bank & Trust Co., Kalamazoo	100. 00	36, 000
7, 500	Grand Rapids Trust Company	100. 00	22, 500
12, 500	Second Nat'l Bank & Trust Co., Saginaw	100. 00	75, 000
1, 500	National Bank of Ionia	100. 00	5, 250
2, 328	3/20ths miscellaneous		793
			212, 168

were given in to the company and carried on the books.

4. Has license to sell your Securities in any other state been revoked? No. Withdrawn? No If so give reason ———

5. Have any changes been made in the following particulars since your application was filed?

A—in the name, nature, or plan of business: No

B—In the plan adopted for sale of its Securities: No

C—In the price at which they are being sold: No

D—In the amount of per cent of commission paid on their sale: No

E—In the amount allowed for promotion or intangibles: No

6. Have you employed Broker to sell your Stock in Michigan during the year? No If so, who? ———

7. Is your company dormant or inactive? No. If so explain ———

B—Date of order giving permission to sell securities. (Since last report:)

1-7-30	98, 500	shares
1-22-30	62, 625	"
1-28-30	75, 000	"
4-9-30	6, 043	"
	242, 168	shares

C—State amount given permission to sell and class of same ———

D—State amount still unsold: None. Stock issued in each instance to acquire the capital stock of banks and other financial institutions.

(The above questions must be answered in every instance.)

8. At what price have Securities been sold in Michigan?

	Price	Amount Sold	Commission Paid
Preferred Stock	$__________	$ none	$__________
Common Stock	$__________	$ none	$__________
No Par Stock	$__________	$ none	$__________
		Total $__________	Total $__________

9. A—What commission paid on stock sold in Michigan _____% none.
B—What commission paid in other states ______% none.
C—Who has paid for advertising of sale of stock, Company or Broker? none.

10. Cash disbursements made since last report for the following:

For patents	$ none
For Advertising Stock Sales	$ none
For Promotion	$ none
For any other Intangibles	$ none

(The above questions must be answered in every instance.)

Explanations: ______________________________

11. Business engaged in: The Company owns shares of stock of various Bank, Trust Companies, and other corporations.

12. The following is a list of officers of the company and the salaries paid to each:

We, the President and Secretary of the GUARDIAN DETROIT UNION GROUP, INC., do solemnly swear that the above statement is true to the best of our knowledge and belief and that this report has been carefully filled out and fully and correctly exhibits the true state of the several matters contained, as shown by the books of the Company.

State of Michigan,

County of Wayne

ALBERT O. LORD,
President.
A. A. F. MAXWELL,
Secretary.

Subscribed and sworn to before me this the ______ day of ________ 19____

____
Notary Public.

My commission expires __________
(See that CORPORATE SEAL is affixed.)

ALL QUESTIONS MUST BE ANSWERED FULLY OR REPORT WILL BE RETURNED FOR CORRECTION.

[Endorsement on back]

File No. ———.
Name. ——— ———; Street, Penobscot Bldg.; Detroit.
Annual report, 1930; filed ———, 1931, with Michigan Securities Commission.
Form 16.

SECTION 28, ACT NO. 220, P.A. 1923, AS AMENDED

SEC. 28. Every essuer of securities (filed under this act shall, until such time as is otherwise ordered by the commission, or before March first of each year, file with the commission, on blanks to be provided by it, a detailed statement showing the condition of said issuer on the thirty-first day of December preceding, and shall at the same time pay a filing fee therefor of $1.

COMMITTEE EXHIBIT NO. 55, DECEMBER 22, 1933

(This report must be on file before March 1st, 1932. A filing fee of one dollar must accompany this report.)

ANNUAL REPORT 1931

(Name of Corporation) Guardian Detroit Union Group, Inc.; Fill in (Street Address) Fort & Griswold Sts.; City Detroit; State Michigan.
Date of Incorporation, May 10th, 1929.

MICHIGAN SECURITIES COMMISSION.

SIRS:—In accordance with Section 28 of Act 220, Public Acts of 1923, as amended, the undersigned Secretary of the above Company, respectfully submits the following report of its condition on the thirty-first day of December, 1931.

1. Financial Statement.	Authorized.	Issued.	Issued During Year.	Par Value.
Common stock	$50, 000, 000	$30, 896, 800	$ None	$20. 00
Preferred stock	$ None	$	$	$
No par stock	Shs. None	Shs.	Shs.	

This statement should reflect the condition of company after closing current year, and must balance.

Assets.	Amount.	Liabilities.	Amount.
Cash	$2, 118, 213. 67	Common Stock Outstanding	$30, 896, 880. 00
Notes receivable	5, 817, 428. 10	Preferred Stock Outstanding	
Accounts Receivable	30, 000. 00	No Par Stock Outstanding *	
Inventory—Materials		Notes Payable	7, 500, 000. 00
Inventory—Mfd. Products		Mortgages	
Real Estate & Buildings	7, 861. 77	Trade Acceptances	
Machinery & Equipment		Accounts Payable	
Office Equipment		Sinking Fund	
Patterns		Reserve for	
Prepaid Expense		Other Liabilities:	3, 375. 34
Advances	260. 00		
Investments	33, 111, 616. 76		
Interest & Prepaid Exp	111, 509. 64		
Good Will			
Commissions			
Organization		Capital Surplus	793, 064. 93
Promotion		Paid In Surplus	2, 292, 500. 00
Patents		Surplus (after closing 12-31-31)	
Deficit—12-31-31	288, 930. 33		
Total	$41, 485, 820. 27	Total	$41, 485, 820. 27

* Liability on non par stock must be set up at the amount the company received for the issuance of same.

2. Statement of Profit and Loss Account for the past twelve months. (If a new corporation, from date of organization.) The footing MUST BALANCE.

Expense.		Income.	
To Deficit in Surplus 12-31-30	$39, 387. 57	By Surplus, 12-31-30	
Returns and Allowances		Sales	
Cost of Sales		Services	$500. 00
Manufacturing Expense		Rents	
Administrative Expense		Commissions	
Miscellaneous Expense	80, 108. 33	Miscellaneous	
Commission Stock Sales		Interest & Discount	61, 479. 74
Repairs & Replacements		Dividends	3, 231, 587. 49
Interest Paid	18, 649. 83	Profits—Sale of Secur	5, 580. 35
Bond Amortization	2, 319. 35	Apprec'n of Investment	41, 655. 00
Advertising	32, 102. 80	Appreciation	
Insurance	1, 696. 14		
Stationery & Ptg	8, 394. 26		
Salaries	136, 624. 24		
Taxes	20, 973. 50		
Organization Expense	204, 060. 51		
Dividends, Common Stock	3, 085, 416. 38		
Dividends, Preferred Stock			
Dividends, No Par Stock			
Net Surplus, 12-31-31			
		Deficit—12-31-31	288, 930. 33
Total	3, 629, 732. 91	Total	3, 629, 732. 91

Any entries affecting Surplus account and not passing through Profit and Loss account must be explained in a statement or letter attached.

3. Statement, showing the consideration received from the stock issued since date of filing original application. (From date of last report if previous report has been filed.)

	Preferred		Common		No par	
	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount
Actual Cash		$		$		$
Notes						
Real Estate						
Plant						
Equipment						
Salaries						
Dividends						
Commissions						
Organization						
Promotion						
Patents						
Totals *		*$		*$		*$

* This column should specify the actual amount of cash or notes received, or the actual value of real estate, etc., received in exchange for stock issued, and should correspond with the value at which these different items were given in to the company and carried on the books.

4. Has license to sell your Securities in any other state been revoked? No. Withdraw? No. If so give reason ———
5. Have any changes been made in the following particulars since your application was filed?
   A—In the name, nature, or plan of business: No.
   B—In the plan adopted for sale of its Securities: No.
   C—In the price at which they are being sold: No.
   D—In the amount of per cent of commission paid on their sale: No.
   E—In the amount allowed for promotion or intangibles: No.
6. Have you employed Broker to sell your Stock in Michigan during the year? No. If so, who?
7. Is your company dormant or inactive? No. If so explain ———
   B—Date of order giving permission to sell securities ———
   C—State amount given permission to sell and class of same ———
   D—State amount still unsold ———
   (The above questions must be answered in every instance.)
8. At what price have Securities been sold in Michigan?

	Price	Amount Sold	Commission Paid
Preferred Stock	$	$ None	$
Common Stock	$	$ None	$
No Par Stock	$	$ None	$
		Total $	Total $

9. A—What commission paid on stock sold in Michigan______% None.
   B—What commission paid in other states______% None.
   C—Who has paid for advertising of sale of stock, Company or Broker? None.
10. Cash disbursements made since last report for the following:
    For patents________ $ None
    For Advertising Stock Sales________ $ None
    For Promotion________ $ None
    For any other Intangibles________ $ None
    (The above questions must be answered in every instance.)
    Explanations:
11. Business engaged in: The Company owns shares of stock of various Banks and Trust Companies and other Corporations.

12. The following is a list of officers of the company and the salaries paid to each:

Name.	Residence Address.	Salary.
President		
Vice President		
Secretary		
Treasurer		
General Manager		
Directors:		
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		

We, the President and Secretary of the GUARDIAN DETROIT UNION GROUP, INC. Company, do solemnly swear that the above statement is true to the best of our knowledge and belief and that this report has been carefully filled out and fully and correctly exhibits the true state of the several matters contained, as shown by the books of the Company.

ROBERT O. BONE,
President.
C. H. HABERKORN, Jr.,
Secretary.

STATE OF MICHIGAN
County of Wayne
Subscribed and sworn to before me this 24th day of February, 1932.

——— ———,
Notary Public.

My commission expires ———
(See that CORPORATE SEAL is affixed.)
ALL QUESTIONS MUST BE ANSWERED FULLY OR REPORT WILL BE RETURNED FOR CORRECTION.

OFFICERS

Name	Residence Address (Michigan)	Salary
Chairman of Board, Frank W. Blair	1716 W. Boston Blvd., Detroit	
Chairman Advisory Committee, Fred T. Murphy.	17620 E. Jefferson Ave., Grosse Pte.	
Chairman Executive Committee, Henry E. Bodman.	20 McKinley Place, Grosse Pte	
President, Robert O. Lord	17 McKinley Place, Grosse Pte	
Vice Chmn. of Board, C. H. Haberkorn, Jr	15440 Windmill Pte., Grosse Pte	
Vice President, Ernest Kanzler	2501 Iroquois Ave., Detroit	
Vice President, James L. Walsh	8162 E. Jefferson Ave., Detroit	
Vice Pres. & Treas., Bert K. Patterson	700 Seward Avenue, Detroit	
Vice President Herbert S. Reynolds	300 So. Brown St., Jackson	
Vice President, R. Perry Shorts	438 N. Jefferson Ave., Saginaw	
Vice President, Frank J. Maurice	RFD-3, Manor Rd., Birmingham	
Vice President, Phelps Newberry	36 Cloverly, Grosse Pte	
Vice President, John N. Stalker	677 Lakeshore Drive, Grosse Pte	
Vice President, Henry H. Sanger	333 University Pl., Grosse Pte	
Vice President, Harry S. Covington	7 Cloverly, Grosse Pte	
Vice President, Charles A. Kanter	1481 Seminole, Detroit	
Vice President, Andrew L. Malott	Statler Hotel, Detroit	
Vice President, Lewis K. Walker	19519 Shrewsbury, Detroit	
Vice President, Joel H. Prescott	9200 Dwight Ave., Detroit	
Vice President, Samuel R. Kingston	1971 Longfellow, Detroit	
Secretary, A. A. F. Maxwell	1550 Lawrence Ave., Detroit	
Asst. Treasurer, W. J. Penningroth	2929 Webb, Detroit	
Comptroller, O. A. Waldow	3025 Cortland, Detroit	

DIRECTORS

Name	Residence Address (Michigan)	Salary
Frank W. Blair	1716 W. Boston Blvd., Detroit	
Arthur C. Bloomfield	750 Michigan Ave. W., Jackson	
Henry E. Bodman	20 McKinley Place, Grosse Pte	
Clarence H. Booth	Lone Pine Road, Bloomfield Hills	
Joseph H. Brewer	Blythefield Farms, Belmont, Mich	
Walter O. Briggs	700 Boston Blvd. W., Detroit	
Daniel D. Brown	2458 Military St., Pt. Huron	
Harry C. Bulkley	749 Seminole, Detroit	
Charles S. Campbell	Whites Road, Kalamazoo	
Roy D. Chapin	447 Lake Shore Rd., Grosse Pte	
George R. Cooke	64 Country Club Lane, Grosse Pte	
Harry S. Covington	7 Cloverly, Grosse Pte	
George R. Fink	17 Cloverly Rd., Grosse Pte	
William A. Fisher	1791 Wellesley Dr., Palmer Woods, Detroit	
Edsel B. Ford	Gaukler Pte., Grosse Pte. Shores	
John H. French	936 Lakeshore Rd., Grosse Pte	
Frank E. Gorman	1224 N. Genessee Dr., Lansing	
Stephen A. Graham	4000 Gratiot Ave., Pt. Huron	
C. H. Haberkorn, Jr	15440 Windmill Pte., Grosse Pte	
Carlton M. Higbie	246 Lakeland Ave., Grosse Pte	
Sherwin A. Hill	"Greenmead", Northville, Mich	
Charles H. Hodges	354 Washington Road, Grosse Pte	
James Inglis	2301 Highland Ave., Ann Arbor	
George B. Judson	19233 Woodston Rd., Palmer Woods, Detroit.	
Ernest Kanzler	2501 Iroquois Ave., Detroit	
Jerome E. J. Keane	379 Lakeland Ave., Grosse Pte	
Dwight B. Lee	P.O. Box No. 643, Detroit	
Robert O. Lord	17 McKinley Place, Grosse Pte	
Clifford B. Longley	11 Touraine, Detroit	
Alvan Macauley	735 Lake Shore Rd., Grosse Pte	
Frank J. Maurice	RFD-3, Manor Rd., Birmingham	
Francis C. McMath	1037 Iroquois Ave., Detroit	
Duncan J. McNabb	Grosse Ile, Michigan	
George B. Morley	316 N. Washington Ave., Saginaw	
Edwin R. Morton	88 Orchard Place, Battle Creek	
Charles S. Mott	1400 E. Kearsley St., Flint	
Fred T. Murphy (Dr.)	17620 E. Jefferson Ave., Detroit	
Edwin H. Nelson	3 D. Garden Court Apts., Detroit	
Phelps Newberry	36 Cloverly Road, Grosse Pte	
Ransom E. Olds	720 S. Washington Ave., Lansing	
Bert K. Patterson	700 Seward Ave., Detriot	
Herbert S. Reynolds	300 S. Brown St., Jackson	
John R. Russel	4 Woodland Place, Grosse Pte	
Murray W. Sales	17743 E. Jefferson Ave., Detroit	
Henry H. Sanger	333 University Place, Grosse Pte	
R. Perry Shorts	438 N. Jefferson Ave., Saginaw	
Hal H. Smith	15530 Windmill Pte. Drive, Grosse Pte	
Oscar W. Smith	8120 E. Jefferson Ave., Detroit	
John N. Stalker	677 Lake Shore Road, Grosse Pte	
James L. Walsh	8162 E. Jefferson Ave., Detroit	
Charels Beecher Warren	273 Lake Shore Road, Grosse Pte	
Herbert R. Wilkin	1144 Woodside Drive, Flint	

[Endorsement]

File No. ———

Name ——— ———; Street ———; City ———.

SECTION 28, ACT NO. 220, P.A. 1923 AS AMENDED.

SEC. 28. Every issuer of securities, filed under this act, shall until such time as is otherwise ordered by the commission, or before March first of each year, file with the commission, on blanks to be provided by it, a detailed statement showing the condition of said issuer on the thirty-first day of December preceding, and shall at the same time pay a filing fee therefor of one dollar.

Annual Report, 1931; Filed (Leave Blank), 1932 with Michigan Securities Commission; Form 16.

COMMITTEE EXHIBIT NO. 56, DECEMBER 22, 1933

(Office Copy)

THIS REPORT MUST BE ON FILE BEFORE MARCH 1st, 1933. A filing fee of ONE DOLLAR must accompany this report.

ANNUAL REPORT 1932

(Name of Corporation) GUARDIAN DETROIT UNION GROUP, INC. (Street Address) FORT & GRISWOLD STS.; City, DETROIT; State, MICHIGAN.

Date of Incorporation May 10th, 1929.

MICHIGAN SECURITIES COMMISSION,

SIRS:—In accordance with Section 28 of Act 220, Public Acts of 1923, as amended, the undersigend Secretary of the above Company, respectfully submits the following report of its condition on the thirty-first day of December, 1932.

1. Financial Statement.

	Authorized.	Issued.	Issued During Year.	Par Value.
Common Stock	$50,000,000	$30,896,880	$ None	$20.00
Preferred Stock	$ None	$	$	$
No Par Stock	Srs. None	Shs.	Shs.	

This statement should reflect the condition of Company after closing current year, and must balance.

Assets	Amount	Liabilities	Amount
Cash	$527,182.34	Common Stock Outstanding	$30,896,880.00
Notes Receivable	17,543,155.38	Preferred Stock Outstanding	
Accounts Receivable	30,445.17	No Par Stock Outstanding *	
Inventory—Materials		Notes Payable	16,259,543.68
Inventory—Mfd. Products		Mortgages	
Real Estate & Buildings		Trade Acceptances	
Machinery & Equipment		Accounts Payable	647.09
Office Equipment		Sinking Fund	
Patterns		Reserve for	
Prepaid Expense		Other Liabilities:	
Investments	31,390,637.88	Accrued Interest & Expense	126,597.32
Good Will		Capital Surplus	589,182.93
Commissions		Paid In Surplus	2,332,901.01
Organization		Surplus (after closing 12-31-32)	
Promotion			
Patents		Total	$50,205,752.03
Deficit—12-31-32	714,331.26		
Total	$50,205,752.03		

* Liability on non par stock must be set up at the amount the company received for the issuance of same

2. Statement of Profit and Loss Account for the past twelve months. (If a new corporation, from date of organization.) The footing MUST BALANCE.

Expense.		Income.	
To deficit in Surplus 12-31-31	$288,930.33	By Surplus 12-31-31	
Returns and Allowances		Sales	
Cost of Sales		Services	
Manufacturing Expense		Rents	
Administrative Expense		Commissions	
Miscellaneous Expense	35,494.06	Miscellaneous	
Commission Stock Sales		Interest & Discount	$579,428.79
Repairs & Replacements		Dividends	663,000.00
Interest Paid	722,164.5	Appreciation	
Loss on Sale of Sec.	78,739.29		
Advertising	16,236.46		
Insurance	1,657.38		
Stationery & Printing	7,837.89		
Salaries	161,280.65		
Taxes	50,280.90		
Rent	14,081.70		
Legal Expense	61,072.93		
Loss from Bad Debts	143,849.87		
Dividends, Common Stock	375,134.00		
Dividends, Preferred Stock			
Dividends, No Par Stock			
Net Surplus, 12-31-32		Deficit—12-31-32	714,331.26
Total	1,956,760.05	Total	1,956,760.05

Any entries affecting Surplus account and not passing through Profit and Loss account must be explained in a statement or letter attached.

3. Statement, showing the consideration received from the stock issued since date of filing original application. (From date of last report if previous report has been filed.)

	Preferred		Common		No Par	
	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount
Actual Cash		$		$		$
Notes						
Real Estate						
Plant						
Equipment						
Salaries						
Dividends						
Commissions						
Organization						
Promotion						
Patents						
Totals *		$*		$*		$*

* This column should specify the actual amount of cash or notes received, or the actual value of real estate, etc., received in exchange for stock issued, and should correspond with the value at which these different items were given in to the company and carried on the books.

4. Has license to sell your securities in any other State been revoked? No. Withdrawn? No. If so, give reason ———
5. Have any changes been made in the following particulars since your application was filed?
   A—In the name, nature, or plan of business: No.
   B—In the plan adopted for sale of its securities: No.
   C—In the price at which they are being sold: No.
   D—In the amount of percent of commission paid on their sale: No.
   E—In the amount allowed for promotion or intangibles: No.
6. Have you employed broker to sell your stock in Michigan during the year? No. If so, who? ———
7. Is your company dormant or inactive? No. If so, explain ———
   B—Date of order giving permission to sell securities ———
   C—State amount given permission to sell, and class of same ———
   D—State amount still unsold ———
   (The above questions must be answered in every instance.)
8. At what price have Securities been sold in Michigan?

	Price	Amount Sold	Commission Paid
Preferred Stock	$	$ None	$
Common Stock	$	$ None	$
No Par Stock	$	$ None	$
		Total $	Total $

9. A—What commission paid on stock sold in Michigan ______% None
   B—What commission paid in other states ______% None
   C—Who has paid for advertising of sale of stock, Company or Broker? None
10. Cash disbursements made since last report for the following:
    For patents ______ $ None
    For Promotion ______ $ None
    For Advertising Stock Sales ______ $ None
    For any other Intangibles ______ $ None
    (The above questions must be answered in every instance.)
    Explanations ———
11. Business engaged in: The Company owns shares of stock of various Banks and Trust Companies and other corporations.

12. The following is a list of officers of the company and the salaries paid to each:

Name.	Residence Address.	Salary.
President		
Vice President		
Secretary		
Treasurer		
General Manager		
Directors:		
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		

We, the President and Secretary of the GUARDIAN DETROIT UNION GROUP, INC. Company, do solemnly swear that the above statement is true to the best of our knowledge and belief and that this report has been carefully filled out and fully and correctly exhibits the true state of the several matters contained, as shown by the books of the Company.

STATE OF MICHIGAN }
County of Wayne }

ROBERT O. LORD, *President.*
C. H. HABERKORN, JR., *Secretary.*

Subscribed and sworn to before me this the 28th day of February, 1933.

PAULINE P. MOSIER, *Notary Public.*

My commission expires June 17, 1935.

(See that CORPORATE SEAL is affixed.)

ALL QUESTIONS MUST BE ANSWERED FULLY OR REPORT WILL BE RETURNED FOR CORRECTION.

OFFICERS

Name	Residence address (Michigan)	Salary
Chairman of Board Ernest Kanzler	2501 Iroquois Ave., Detroit	
" of Executive Committee R. Perry Shorts.	438 N. Jefferson Ave., Saginaw	
Counsel Henry E. Bodman	20 McKinley Place, Grosse Pte	
President Robert O. Lord	17 McKinley Place, Grosse Pte	
Exec. Vice President James L. Walsh	8162 E. Jefferson Ave., Detroit	
" " " Bert K. Patterson	700 Seward Avenue, Detroit	
" " " Herbert R. Wilkin	8120 E. Jefferson Ave., Detroit	
" " " Ralph E. Badger	17595 Wildemere Ave., Detroit	
Vice Pres. & Sec'y. C. H. Haberkorn, Jr	15440 Windmill Place, Grosse Pte	
" " & Comptroller Richard C. Huelsman	17525 Wildemere Ave., Detroit	
Asst. Vice President Norman H. Moysey	2252 Yorkshire Avenue, Birmingham	
" " " W. C. Goddard	16913 Maumee Ave., Grosse Pte	
Treas. & Asst. Sec'y. Harvey C. Emery	Ann Arbor	
General Auditor Ottmar A. Waldo	3023 Cortland Ave., Detroit	

DIRECTORS

Arthur C. Bloomfield	750 Michigan Ave., W., Jackson	
Henry E. Bodman	20 McKinley Place, Grosse Pte	
Clarence H. Booth	Lone Pine Road, Bloomfield Hills	
Joseph H. Brewer	Blythefield Farms, Belmont	
Walter O. Briggs	700 Boston Blvd., W., Detroit	
Harry C. Bulkley	749 Seminole Ave., Detroit	
Charles I. Campbell	Whites Road, Kalamazoo	
Roy D. Chapin	447 Lakeshore Road, Grosse Pte	
George R. Cooke	64 Country Club Lane, Grosse Pte	
Harry S. Covington	7 Cloverly Road, Grosse Pte	
George R. Fink	17 Cloverly Road, Grosse Pte	
William A. Fisher	1791 Wellesley Drive, Detroit	
Edsel B. Ford	Gaukler Pointe, Grosse Pte	
John H. French	936 Lakeshore Road, Grosse Pte	
Frank E. Gorman	1224 N. Genesee Drive, Lansing	
Stephen A. Graham	4000 Gratiot Avenue, Port Huron	
C. H. Haberkorn, Jr	15440 Windmill Place, Grosse Pte	

DIRECTORS—Continued

Name	Residence address (Michigan)	Salary
Sherwin A. Hill	Greenmead—Northville	
Charles H. Hodges	354 Washington Road, Grosse Pte	
James Inglis	2301 Highland Ave., Ann Arbor	
George B. Judson	19233 Woodston Road, Detroit	
Ernest Kanzler	2501 Iroquois Avenue, Detroit	
Dwight B. Lee	P. O. Box 643, Detroit	
Clifford B. Longley	11 Touraine, Detroit	
Robert O. Lord	17 McKindly Place, Grosse Pte	
Alvan Macauley	735 Lakeshore Road, Grosse Pte	
Frank J. Maurice	R.F.D. No. 3 Manor Road, Birmingham	
George B. Morley	316 N. Washington Avenue, Detroit	
Charles S. Mott	1400 E. Kearsley Street, Flint	
Fred J. Murphy	17620 E. Jefferson Avenue, Detroit	
Phelps Newberry	36 Cloverly Road, Grosse Pte	
Ransom E. Olds	720 So. Washington Ave., Lansing	
Bert K. Patterson	700 Seward Avenue, Detroit	
Herbert S. Reynolds	300 So. Brown Street, Jackson	
Murray W. Sales	17743 E. Jefferson Ave., Detroit	
Henry H. Sanger	333 University Place, Grosse Pte	
Alger Sheldon	525 Lakeshore Road, Grosse Pte	
R. Perry Shorts	438 North Jefferson Ave., Saginaw	
Hal H. Smith	15530 Windmill Pte. Drive, Grosse Pte	
Oscar W. Smith	8120 E. Jefferson Ave., Detroit	
James L. Walsh	8162 E. Jefferson Ave., Detroit	
Charles B. Warren	273 Lakeshore Road, Grosse Pte	
Herbert R. Wilkin	8120 E. Jefferson Ave., Detroit	

[Endorsement]

File No. ______

Name Guardian Detroit Union Group, Inc.: Street Penobscot Bldg.; City Detroit.

Annual report, 1932; Filed (Leave Blank), 1933 With Michigan Securities Commission; Form 16.

SECTION 28, ACT NO. 220, P.A. 1923 AS AMENDED

SEC. 28. Every issuer of securities, filed under this act, shall until such time as is otherwise ordered by the commission, or before March first of each year, file with the commission, on blanks to be provided by it, a detailed statement showing the condition of said issuer on the thirty-first day of December preceding, and shall at the same time pay a filing fee therefor of one dollar.

STOCK EXCHANGE PRACTICES

WEDNESDAY, JANUARY 3, 1934

United States Senate,
Subcommittee of the Committee on
Banking and Currency,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on Friday, December 22, 1933, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Barkley, Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee, Julius Silver and David Saperstein, associate counsel to the committee: and Frank J. Meehan, chief statistician to the committee.

The Chairman. The subcommittee will come to order, please. Mr. Pecora, have you your witnesses present?

Mr. Pecora. Yes, sir. I think we will recall Mr. Patterson, who has already been sworn.

TESTIMONY OF BERT K. PATTERSON—Resumed

Mr. Pecora. Mr. Patterson, when you became Vice President of the Guardian Detroit Union Group, Inc., what, particularly, were the duties that were assigned to you, or which you undertook to perform?

Mr. Patterson. The first duties were to make examinations of banks which Mr. Lord had tentatively made arrangements with to exchange shares for.

Mr. Pecora. That is, the various banks that that Group contemplated acquiring——

Mr. Patterson. That is right.

Mr. Pecora. Through purchase or acquisition of their stock?

Mr. Patterson. Yes, sir.

Mr. Pecora. Well, did that remain as your principal duty during the entire period of your service as executive vice president of the Group?

Mr. Patterson. Yes, sir.

Mr. Pecora. That is, it was your special function——

Mr. Patterson. It was.

Mr. Pecora. To look after the condition of the various bank units of the Group.

Mr. Patterson. With the exception of a part of 1932, Mr. Pecora, when the work was divided. When Mr. Wilkin was brought from Flint to Detroit and made an officer of the Group Co., whereupon

certain banks were allocated to him, that is, certain banks were allocated to my supervision and certain banks to Mr. Wilkin for his supervision.

Mr. PECORA. Did you, for the purpose of observing the condition of the various banking units of the Group, from time to time make examinations of those unit banks or cause them to be made?

Mr. PATTERSON. Yes, caused them to be made mostly. At the beginning I personally made an examination of the Union National Bank & Trust Co. of Jackson for the purpose of acquisition, and later I personally made an examination of the Federal Commercial & Savings Bank of Port Huron, and also of the First National Bank of Port Huron. When the arrangements with the Union Commerce Corporation was far enough along I also made a personal examination of the Union Trust Co. of Detroit. After that I do not believe I personally made any examinations. That was all done with the help of Mr. Bryan and Mr. Penningroth.

Mr. PECORA. And Mr. Hopkins?

Mr. PATTERSON. No. Mr. Hopkins did not make any examinations of banks forming the Group.

Mr. PECORA. Now, the three gentlemen last named had been bank examiners in the office of the Comptroller of the Currency for quite a number of years before they became connected with the Group, hadn't they?

Mr. PATTERSON. That is right.

Mr. PECORA. And you also had had many years of service as a national bank examiner immediately prior to your becoming connected with the Group.

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Well, when those examinations of unit banks were made by others than yourself while you were vice president of the Group, were the results of their examinations submitted to you for your action?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Was that true of all the banking units of the Group?

Mr. PATTERSON. I believe it was.

Mr. PECORA. Did you also in connection with your supervision of those examinations of the various unit banks have access to copies of reports on those banks made by the public authorities from time to time, both State and Federal?

Mr. PATTERSON. As to the national banks, yes. The commissioner of banking in Michigan has not followed the practice of supplying State banks with reports of examinations other than merely a letter of criticism.

Mr. PECORA. You were the vice president of the Group when on December 31, 1931, the Guardian National Bank merged with the National Bank of Commerce?

Mr. PATTERSON. Yes, I was.

Mr. PECORA. And became the Guardian National Bank of Commerce?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Had you made or caused to be made any examination of the National Bank of Commerce prior to that consolidation for the purpose of ascertaining the condition of that bank?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. And did you make any special report to the Group?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Have you a copy of it?

Mr. PATTERSON. No, I have not.

Mr. PECORA. Do you recall the substance of the conclusions that you stated in your report with regard to the condition of the National Bank of Commerce and the desirability or advisability of the Guardian National Bank merging or consolidating with it?

Mr. PATTERSON. It wasn't my report, Mr. Pecora, and I don't recall much about it now.

Mr. PECORA. Well, can't you tell the committee from your personal recollection whether or not you recommended the consolidation?

Mr. PATTERSON. Yes; I believe I did.

Mr. PECORA. And did you recommend it because your examination revealed to you a healthy condition of the National Bank of Commerce at the time?

Mr. PATTERSON. Well, there were many very excellent economies to be effected by the consolidation. I do not recall whether the condition of the bank was healthy or not, and could not say until I could see the figures, Mr. Pecora.

Mr. PECORA. Well, that was one of the more important consolidations of unit banks effected by the Group, was it not?

Mr. PATTERSON. Yes.

Mr. PECORA. Can't you recall whether or not your judgment, as a result of your examination of the National Bank of Commerce prior to consolidation, was that it was in a good, healthy, wholesome condition or otherwise?

Mr. PATTERSON. I will answer that question in this way: If there were any undesirable assets of quantity there, there was sufficient capital to eliminate them and still leave the consolidated bank with ample capital to protect the deposits. I do not recall the figures so as to accurately answer your question now.

Mr. PECORA. One of the reasons I am asking you these questions, Mr. Patterson, is because my recollection is to the effect that Mr. Lord stated in the course of his testimony before this subcommittee, among other things, that certain conditions of the Guardian National Bank of Commerce were really inherited by his original institution as a result of this consolidation with the National Bank of Commerce.

Mr. PATTERSON. That is probably apparent now. That is to say, at the time of consolidation, or at the time of the examination made by the Group examiners prior to consolidation, conditions were such that assets afterwards taken over proved to be good—or, rather, proved to be poor as the depression continued and collateral values slipped off.

Mr. PECORA. Do you recall having found in the National Bank of Commerce, prior to consolidation with the Guardian National Bank, that the former bank, the first-named bank, had carried a large amount of the Group stock as collateral for loans?

Mr. PATTERSON. No; I do not recall it now, sir.

Mr. PECORA. Do you recall what the situation was in that particular respect with the Group banking units generally?

Mr. PATTERSON. Yes; I do.

Mr. PECORA. What was it?

Mr. PATTERSON. There was a great amount of collateral of the Group stock held as security for loans.

Mr. PECORA. And to whom or to what classes of persons had those loans so secured been made by the various unit banks? Were they made to officers or directors of the Group or of the unit banks themselves in large part?

Mr. PATTERSON. No; not in large part.

Mr. PECORA. Well, to a substantial extent?

Mr. PATTERSON. No; I wouldn't even say that. Not knowing exactly what the split would be between loans to officers of banks and to other individuals, I could not say that. But may I say this, that as time went on the amount of the Group stock held was the result of the exchange of Group stock for bank stock.

Mr. PECORA. Well, I am speaking now of the policy of making loans secured by Group stock, regardless of how the Group stock found its way into the hands of borrowers.

Mr. PATTERSON. I do not believe there was any pronounced policy to deliberately make loans and take Group stock as collateral. It was only taken when it was necessary to get any or all kinds of security to protect a poor loan, or as it became poor.

Mr. PECORA. Do you recall that various national bank examiners from time to time severely criticized the large amount or blocks of Group stock which various unit banks held as collateral for loans?

Mr. PATTERSON. Yes, sir; I do.

Mr. PECORA. Do you recall that those criticisms were constantly recurring?

Mr. PATTERSON. Yes, I do.

Mr. PECORA. What, if anything, was done by the Group officials to remedy that situation?

Mr. PATTERSON. Anything and everything.

Mr. PECORA. Well, what? That answer is too general.

Mr. PATTERSON. Well, we were having a war out in our country, and we were trying to collect loans from people who were nearly broke. And I think that the record of liquidation in the banks of the Group, particularly at Flint, at Grand Rapids, and at Saginaw, if you could review them you would agree with me that they had done all that anybody humanly could do.

Mr. PECORA. Well, will you tell us what, specifically, was done to meet the criticisms of national-bank examiners which were based, in part, upon the holding of so many shares of Group stock as collateral for loans?

Mr. PATTERSON. Why, the officers endeavored to convert the loans into cash wherever they could.

Mr. PECORA. Did they succeed?

Mr. PATTERSON. I think they did, pretty well.

Mr. PECORA. Or did those loans secured by Group stock increase in amount from the time national-bank examiners first began to criticize them.

Mr. PATTERSON. Well, I do not believe I could specifically answer that question, Mr. Pecora, unless I could have the figures to go on. I would not want to trust my memory. I should say that there were none purchased.

Mr. PECORA. Would you say that they were reduced to meet the criticisms of national-bank examiners?

Mr. Patterson. Possibly not substantially reduced.

Mr. Pecora. Would you say they were reduced at all?

Mr. Patterson. Yes; I would.

Mr. Pecora. Now, let me call your attention to the following item of criticism embodied in the report of the examination of the National Bank of Commerce, which report was made in April of 1929 by William Taylor, then bank examiner and now chief national-bank examiner in Chicago. I am quoting from the report:

> Loans aggregating $2,029,015 secured entirely or in part by 2,583 shares of stock—

Referring to stock of the Union Commerce Investment Co.—

> are subject to criticism on two occasions: First, the concentration is regarded as excessive; and, second, for the reason that the investment company owns practically all the stock in the subject bank, and the pledged stock as collateral for loans amounts to a circumvention of the law.

Did you become familiar with the situation referred to in that criticism?

Mr. Patterson. In April of 1929?

Mr. Pecora. Yes.

Mr. Patterson. No. And I was not——

Mr. Pecora (interposing). I know that you were not connected with the Group at that time; but I mean when you specifically made an examination of the National Bank of Commerce for the purpose of determining or enabling the Group to determine the advisability of consolidating that bank with the Guardian National Bank.

Mr. Patterson. Yes.

Mr. Pecora. Did you then familiarize yourself——

Mr. Patterson (interposing). Yes.

Mr. Pecora (continuing). With those criticisms?

Mr. Patterson. No; not with the criticisms.

Mr. Pecora. Well, with the condition?

Mr. Patterson. Yes; I knew what they had.

Mr. Pecora. Now, the Union Commerce Investment Co. was the investment affiliate or securities affiliate of the National Bank of Commerce, wasn't it?

Mr. Patterson. I believe it was; but I cannot tell you very much about the Union Commerce Investment Co.

Mr. Pecora. Why not?

Mr. Patterson. Because I do not know much about it.

Mr. Pecora. Well, it was one of the units owned by the Group, wasn't it?

Mr. Patterson. No. It was a corporation which Mr. Blair and his associates formed for the purpose of acquiring banks, and the Guardian Detroit Group afterwards acquired the Union Commerce Corporation.

Mr. Pecora. This Union Commerce Investment Co. was a holding company, wasn't it?

Mr. Patterson. I cannot tell you much about it, Mr. Pecora.

The Chairman. What became of it? Did it disappear entirely; that is, I mean the corporation, or what became of it?

Mr. Patterson. The Union Commerce Corporation was merged with the Guardian Detroit Group, and afterwards liquidated by them.

Mr. Pecora. Mr. Patterson, it so happens that you were chief national bank examiner for the seventh district in April of 1929, when

the National Bank of Commerce was examined by Mr. William Taylor.

Mr. PATTERSON. Yes, sir.

Mr. PECORA. And you signed the report, didn't you?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Now, the criticism that I read to you is embodied in the report which you yourself signed.

Mr. PATTERSON. Those reports are signed, Mr. Pecora, by all chief bank examiners as a matter of routine.

Mr. PECORA. Only as a matter of routine?

Mr. PATTERSON. Pretty largely that; yes, sir.

Mr. PECORA. Doesn't the chief national bank examiner when he reviews reports made by examiners working under his direction do something more than merely affix his signature to the examiner's report as a matter of form?

Mr. PATTERSON. Oh, yes, sir, depending upon the situation. But chief national bank examiners are in no different category than any other examiner, and each examiner prepares his own report, and it is his.

Mr. PECORA. It is his report, but it is submitted first to the chief national bank examiner for the district, and then is transmitted to the Comptroller of the Currency, isn't it?

Mr. PATTERSON. I will put it this way: The report is prepared by the field examiner for the Comptroller of the Currency, and the report is typed in the chief examiner's office, and he signs it and forwards it to the Comptroller of the Currency.

Mr. PECORA. Well, does the chief examiner sign it without familiarizing himself with its contents? Is that the custom?

Mr. PATTERSON. Oh, no. Reports are scanned. It is assumed always, unless it is a very difficult case, that the examiner has handled all the criticisms on the ground.

Mr. PECORA. Well, the purpose of the examiner itemizing subjects of criticism is to concentrate attention, isn't it?

Mr. PATTERSON. That is right.

Mr. PECORA. Not only on the part of the Comptroller of the Currency but on the part of the immediate superior of the field examiner, namely, the chief bank examiner for the district.

Mr. PATTERSON. That is correct.

Mr. PECORA. Well, now, didn't you notice that your field examiners in the early part of 1929 were calling attention to the vice embodied in the situation where a bank carried a substantial line of loans secured by stock of a holding company which, in turn, owned the bank through stock ownership?

Mr. PATTERSON. No, sir. That was not noticed. That is to say, it was not brought up as a major item at that time.

Mr. PECORA. Well, now, let us see about that——

Mr. PATTERSON (continuing). It was one form of concentration of credit it is true, which was probably entitled to criticism, but not particularly noticeable merely because it was holding company stock acting as security for a large aggregate of loans.

Mr. PECORA. Just let us see what the field examiner said, for this is the field examiner's language embodied in the report which you

signed. Under the caption "Loans Secured by Stock in Union Commerce Investment Company", he says:

> Loans aggregating $2,029,015 secured entirely or in part by 2,583 shares of stock of this company, are subject to criticism on two occasions: First, the concentration is regarded as excessive; and, secondly, for the reason that the investment company owns practically all the stock in the subject bank, and the pledged stock as collateral for loans amounts to a circumvention of the law.

Now, that was not an ordinary criticism, was it?

Mr. PATTERSON. Why, yes, I would think it was.

Mr. PECORA. Do you think where a field examiner reports a condition which he regards as practically amounting to a violation or circumvention of the law, is something that does not require any special consideration by the chief bank examiner?

Mr. PATTERSON. Well, that was his opinion, as to circumvention of the law.

Mr. PECORA. And you adopted that opinion when you signed the report, didn't you?

Mr. PATTERSON. No; I did not.

Mr. PECORA. Why did you sign the report if you disagreed with any part of it?

Mr. PATTERSON. I did not disagree with any part of it. I signed it as a matter of office routine.

Mr. PECORA. Well, I asked you before if that was the spirit in which chief national bank examiners performed their duties when they signed reports made to them by their field examiners. Do they merely sign the reports without any consideration of their contents?

Mr. PATTERSON. No, sir; they do not.

Mr. PECORA. Do they sign them, in other words, as a matter of routine as you have just stated?

Mr. PATTERSON. They sign them pretty largely as a matter of routine, and they make note of any serious criticisms, and it is always assumed that the examiner has endeavored to correct the criticisms while on the job.

Mr. PECORA. Well, now, when you signed your field examiner's report in this instance, did you observe this criticism that he made with respect to a practice that he found in the bank and which he specifically reported amounted to a circumvention of the law?

Mr. PATTERSON. That report is almost a matter of fair phraseology, and I do not recall it.

Mr. PECORA. I am now reminding you of it by reading to you the precise language, and am asking you for a statement of policy which was adopted by you as the chief national bank examiner in the district at the time.

Mr. PATTERSON. The policy in regard to all concentration of loans was to recommend to the Comptroller of the Currency that the banks be written and their attention called to them, and I imagine the Comptroller did it in this case.

Mr. PECORA. Now, the criticism that I have read to you from this report, Mr. Patterson, appears on that page of the report which is captioned "List of Items Requiring Attention and not any Corrections Made or Promised During Examination."

Wouldn't any items of criticism appearing under that caption, require especially the attention of the chief national bank examiner of the district?

Mr. PATTERSON. No. Those criticisms are written for the attention of the Comptroller of the Currency.

Mr. PECORA. Well, does the chief national bank examiner pass them on without any consideration of his own?

Mr. PATTERSON. It is only in unusual cases where the chief examiner, in transmitting another examiner's report to the Comptroller of the Currency, will write a letter about it. Reports are merely signed and forwarded in that way to the Comptroller's office.

Mr. PECORA. Are you trying to tell us by that answer that the chief national bank examiner signs reports prepared by his field examiners purely as a matter of routine?

Mr. PATTERSON. Not always. Wherever——

Mr. PECORA (interposing). Is that the general rule, or did you follow that rule generally?

Mr. PATTERSON. I followed that general rule; yes, sir.

Mr. PECORA. And do you know whether that was followed in the same fashion by other chief national bank examiners in other districts?

Mr. PATTERSON. No; I cannot say as to that.

Mr. PECORA. The next examination of the National Bank of Commerce appears to have been made in October 1929. By that time you had ceased to be the Chief National Bank Examiner for the 7th District and had become vice president of the Guardian Detroit Union Group, had you not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. From the report which was made of the examination of the National Bank of Commerce in October 1929 let me read the following item of criticism to you, on the page captioned "List of Items Requiring Attention" and "note any corrections made or promised during examination," the following item appears "Loans secured by Union Commerce Company stock: 10,665 shares secures loans totaling $2,294,910.81. Such loans have technically been made in violation of law, since all but 391 shares of stock of subject bank is owned by this company."

Doesn't that indicate to you, Mr. Patterson, that the condition complained of by the examiner whose report you signed as the Chief National Bank Examiner for the District in April 1929, instead of having been abated by the bank's officials, had become more aggravated by October 1929?

Mr. PATTERSON. In that period; yes, sir. The loans had increased and the collateral had increased. I would like to make this observation, however, that undoubtedly a review of the market price of that collateral will show that a great many of the loans were adequately secured. The examiner is merely calling attention to a concentration of credit.

Mr. PECORA. The examiner did something more than that, didn't he?

Mr. PATTERSON. What was it?

Mr. PECORA. Called attention to the continued violation or contravention of the law?

Mr. PATTERSON. Yes, he did.

Mr. PECORA. That is a matter of serious consideration, is it not?

Mr. PATTERSON. It was his opinion as to whether or not it was a contravention of law.

Mr. PECORA. Did your opinion differ from the field examiner's opinion on that when you signed the April 1929 report?

Mr. PATTERSON. I believe it did, sir.

Mr. PECORA Then why did you sign the report?

Mr. PATTERSON. I say I signed the report merely transmitting it to the Comptroller.

Mr. PECORA. And you signed it knowing or feeling that the field examiner had made a criticism of a very serious character in which he virtually charged a violation of the law, while you disagreed with that conclusion of the field examiner?

Mr. PATTERSON. There are many reports the chief examiner signed of many other field examiners where violations of law are more pronounced than that.

Mr. PECORA. Let us confine ourselves to the instance that we are speaking of. Won't you please do that, Mr. Patterson?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. You want the committee to understand that when you signed the field examiner's report of the examination of the National Bank of Commerce of Detroit in April 1929, which report called attention to what the field examiner stated to be a circumvention of the law, of the National Banking Act in other words, did you sign that report as the Chief National Bank Examiner for the district while you disagreed with that conclusion or criticism of the field examiner?

Mr. PATTERSON. I signed the report but did not indicate any such disapproval. I tell you now that I probably did disagree with the examiner then.

Mr. PECORA. Then why did you permit that criticism to stand if you thought it was an unjust or unfair one?

Mr. PATTERSON. It was the examiner's own criticism and not mine.

Mr. PECORA. But you made it your own when you signed the report, did you not?

Mr. PATTERSON. Oh, no; I beg to differ. The report was signed as a matter of transmitting it to the Comptroller.

Mr. PECORA. Would not a forwarding letter merely serve to transmit the report without your having signed it as the Chief Examiner?

Mr. PATTERSON. That is not the way it is done, sir.

Mr. PECORA. Then do you still want us to understand that the Chief National Bank Examiner signs the reports of examinations made by his field examiners without regard to their contents and merely for the purpose of forwarding them to the Comptroller of the Currency?

Mr. PATTERSON. It is largely that. As a matter of fact, the chief examiner is merely, in signing the report, the examiner's attorney-in-fact.

Mr. PECORA. Did you ever disagree while you were chief examiner in any district with the conclusions of your field examiners embodied in their reports?

Mr. PATTERSON. Many times.

Mr. PECORA. Well, did you indicate that disagreement?

Mr. PATTERSON. Not always; no, sir.

Mr. PECORA. Where you did, how did you indicate it?

Mr. PATTERSON. By letter.

Mr. PECORA. By letter to whom?

Mr. PATTERSON. To the Comptroller.

Mr. PECORA. Do you recall whether in this instance you gave expression to your disagreement with that conclusion of the field examiner in any letter you sent to the Comptroller of the Currency?

Mr. PATTERSON. I don't recall. I don't believe I did.

Mr. PECORA. Do you mean that you were willing to pass on to the Comptroller of the Currency over your signature as a chief national bank examiner for the district a report which in words stated that certain things were being done by the bank in contravention of the law without calling the Comptroller's attention to the fact that you disagreed with that conclusion of the field examiner?

Mr. PATTERSON. Yes; I apparently did that in that case.

Mr. PECORA. Do you think that that is the way in which a chief national bank examiner should attend to his duties?

Mr. PATTERSON. Well, the chief national bank examiner has many duties, and sometimes he cannot cover everything.

Senator COUZENS. While you are on that point, Mr. Patterson, will you please tell the committee what the duties of the chief national bank examiner are, and particularly in view of the fact that you say you signed all these reports as a matter of form?

Mr. PATTERSON. His duties are to maintain the office of the chief examiner, which includes the supervision of clerks who reconcile bank accounts, correspondent accounts, the typing and preparation of the field examiners' reports, to see that the various examinations at the banks are kept up and men routed, provide that they are properly systemized.

Senator COUZENS. Does not include visiting any of the banks that are examined at all?

Mr. PATTERSON. Sometimes.

Senator COUZENS. Isn't it a fact that some of the chief bank examiners do go around and call on the banks which their assistants examine and discuss these matters with the directors?

Mr. PATTERSON. Yes, sir.

Senator COUZENS. Describe your duties in that connection.

Mr. PATTERSON. In some of the larger and more difficult examinations I participated in the discussions with the field examiners, or if it was not possible for me to attend the discussions at that time later on I called the bank. It was merely a matter of call.

Senator COUZENS. Now, in connection with the query that has just been made by Mr. Pecora, did you discuss with any of these banks who were criticized as carrying their own stocks or circumventing the law or making technical violations, any of those questions?

Mr. PATTERSON. No, sir.

Senator COUZENS. Then apparently you must have thought that these technical violations and circumventions of law were an ordinary occasion and that there was no particular object of your discussing them with the banks who were charged with them?

Mr. PATTERSON. I left that to the Comptroller to determine whether or not it was a circumvention of law, inasmuch as I believed it was merely the examiner's opinion.

Senator BARKLEY. Were these reports of the examiner made to you or to the Comptroller and just passed through you?

Mr. PATTERSON. To the Comptroller.

Senator BARKLEY. They were not made to you at all?

Mr. PATTERSON. The field examiner's pencil copy of reports are forwarded to the chief examiner's office for typing and finished. Many times the examiner cannot be present when the report is finished and we sign his name for him. Each chief examiner signs for him.

Senator BARKLEY. You sign his name and then sign your own?

Mr. PATTERSON. That is right.

The CHAIRMAN. What is the precise language preceding your own signature?

Mr. PATTERSON. I don't remember, Senator, what it is.

Mr. PECORA. I was just looking at that, Senator.

The CHAIRMAN. It was a question of whether you merely say "I herewith transmit the report of the field examiner", or whether you sign some sort of certificate as to its correctness or soundness.

Mr. PATTERSON. The examiner supplies us with a small form or certificate authorizing the chief examiner to sign for him.

The CHAIRMAN. I mean following that comes the signature of the chief examiner, either that he is hereby transmitting the report of the field examiner or that the report he has examined and approved.

Mr. PATTERSON. Yes.

The CHAIRMAN. Now, which happens? What does happen?

Mr. PATTERSON. I would say it was merely a transmittal.

Senator BARKLEY. Where the report of the examiner shows a situation which is so serious that it ought not to wait for the ordinary routine of a transmittal to Washington and a report from the Comptroller, does the chief examiner assume any authority to take any action and make any examination to correct it?

Mr. PATTERSON. When the examination has been finished, Senator, and the situation is very serious, the examiner will ask the chief examiner to immediately participate with him in formulating some plan and correct whatever is found to be wrong. Many times directors are called into the chief examiner's office for discussion as to means to effect that correction. If the situation is large and immediate, the chief examiner will get in touch with the Comptroller's office for advice.

The CHAIRMAN. What provision of the law do you have in mind as being contrevened? Do you recall that? What law is that?

Mr. PATTERSON. I would say that it was the statute preventing the making of loans secured by its own bank stock.

The CHAIRMAN. There is a statute against that?

Mr. PATTERSON. Yes, sir.

The CHAIRMAN. Well, that was done here, was it not?

Mr. PATTERSON. It was holding company stock, Senator.

Mr. PECORA. But the holding company owned all but some three hundred-odd shares of the capital stock of the subject bank, did it not?

Mr. PATTERSON. That is correct.

Mr. PECORA. And that circumstance was specially called attention to by the field examiner?

Mr. PATTERSON. That was one of his criticisms that was specially mentioned; yes, sir.

Mr. PECORA. So that in effect he was reporting that the bank had made a substantial number of loans, the amount of loans aggregating over $2,000,000, which were secured by the stock of the

holding company, which in turn owned practically all of the capital stock of the bank?

Mr. PATTERSON. Yes. It is quite probable that this examiner was proceeding on the same theory that many others have. The large amount of shares here was undoubtedly due to the exchange of bank shares, wherein the holders got a great many shares more of holding company stock than they formerly held of bank stock.

Mr. PECORA. What has that got to do with the matter of correcting what is reported to be a circumvention of the law with regard to the making of loans?

Mr. PATTERSON. It hasn't anything to do. I was merely offering an explanation of the large number of shares which were reported.

The CHAIRMAN. Were any of these loans made to the directors of the bank?

Mr. PATTERSON. I don't recall whether they were or not.

Mr. PECORA. Mr. Chairman, I have before me a photostatic reproduction of the entire report that was made of the National Bank of Commerce as of April 25, 1929. That report is signed in the following manner: The signature of William Taylor—or rather the name "William Taylor"—is typewritten on a line over the printed word "Examiner." Directly underneath is the typewritten word "by"; then the handwritten signature of "B. K. Patterson, Chief Examiner." So that the only handwritten signature is that of the chief examiner.

Mr. PATTERSON. That is right.

Mr. PECORA. And you say that in this case you affixed your signature to Mr. Taylor's report virtually as a matter of form or routine?

Mr. PATTERSON. I think you should see the form or certificate which each examiner, including Mr. Taylor, signed in transmitting this pencil copy authorizing me to sign the finished copy for him. I don't recall just what that is, Mr. Pecora.

Mr. PECORA. We will find it for you. Now, by October 1929, you had, as already testified, become the vice president of The Group. Was it then called to your attention that the condition complained of by Examiner Taylor in April 1929, had not been allayed, but that rather had been aggravated?

Mr. PATTERSON. Yes; I knew that there had been an increase in shares and some increase in loans based upon those shares.

Mr. PECORA. What, if anything, did you do about it?

Mr. PATTERSON. In October 1929?

Mr. PECORA. Yes.

Mr. PATTERSON. Nothing.

Mr. PECORA. An examination of the National Bank of Commerce and Union Trust Co. was made as of September 15, 1930, by the National Bank Examiners and again attention was called to this evil of the bank making loans secured by the stock of the holding company, which in turn owned practically all of the shares of the bank. Are you familiar with the situation that was disclosed by that report?

Mr. PATTERSON. I don't recall it now.

Mr. PECORA. Do you recall whether by that time anything at all had been done by the group to alleviate the condition complained of with respect to the unit banks making, and particularly

the National Bank of Commerce making, a large amount of loans secured by the stock of the holding company?

Mr. PATTERSON. I recall that there was a pretty well-defined policy to try to reduce as much as possible.

Mr. PECORA. Do you recall that in the pursuit of that policy the outcome was an increase in the amount of collateral consisting of stock of the group held by the bank?

Mr. PATTERSON. No, I don't recall it now.

Senator COUZENS. Mr. Patterson, while Mr. Pecora is looking that up will you tell us what jurisdiction you have over your subordinates?

Mr. PATTERSON. While with the group?

Senator COUZENS. No, while you were chief bank examiner of the seventh district.

Mr. PATTERSON. Well, they were all directly the employees of the Comptroller of the Currency, and chief examiners are also employees of the Comptroller of the Currency. Each of the field examiners is assigned to specific subdistricts within each Federal Reserve district.

Senator COUZENS. By whom?

Mr. PATTERSON. By the Comptroller of the Currency. And he establishes convenient headquarters in order to examine the banks as economically as possible. He proceeds to do that without any particular orders from the chief examiner, inasmuch as he knows what banks are due for examinations.

In addition to that the chief examiner is provided with three or more examiners who are not assigned to any particular district, for work at large. These examiners are specifically assigned by the chief examiner to special cases or to large examinations in the larger districts.

Senator COUZENS. Have you any jurisdiction to remove or reprimand or facilitate the efficiency of the examiners?

Mr. PATTERSON. That should come directly from the Comptroller, although in many instances the chief examiner makes recommendations to the Comptroller.

Senator COUZENS. But you do not check up on the examiners to see whether they are doing efficient work or not or whether their reports are reliable, do you?

Mr. PATTERSON. Not particularly, no, sir, unless it is a flagrant case.

Senator COUZENS. Well, who is responsible for looking after the examiners to see that they do properly the work and their reports are satisfactory and the examinations are satisfactory? Whose responsibility is that?

Mr. PATTERSON. Well, directly the Comptroller, I would say, but of course the chief examiner is held responsible, too.

Senator COUZENS. You have no authority to remove anybody or to change them or to reprimand them for the kind of examinations that they make?

Mr. PATTERSON. No, sir.

Senator BARKLEY. You do have authority to recommend removals and you do have authority to transfer men in your district from one place to another, don't you?

Mr. PATTERSON. Only by recommendation, Senator.

Senator BARKLEY. You mean you cannot take a man out of one territory within your district and put him in another?

Mr. PATTERSON. No, sir.

Senator BARKLEY. Don't you direct where he should go to examine a bank?

Mr. PATTERSON. Only within his own district.

Senator BARKLEY. That is what I mean.

Mr. PATTERSON. Yes.

Senator BARKLEY. And you do recommend in other cases?

Mr. PATTERSON. If he were to be transferred to another district that would have to be recommended to the Comptroller and he would arrange it.

Senator BARKLEY. But you would make the recommendation for transfer?

Mr. PATTERSON. Yes, sir.

Senator BARKLEY. And you do make the recommendations for dismissals where you do not think that the examiner is complying with your idea of his performance of his duties?

Mr. PATTERSON. Yes, sir.

Senator BARKLEY. And in order to make such a recommendation you have to know something about his work, don't you?

Mr. PATTERSON. Yes, sir.

Senator BARKLEY. And you know that from examining him?

Mr. PATTERSON. Yes, sir.

Senator BARKLEY. So that you do have a good deal of authority over him?

Mr. PATTERSON. Well, sometimes; sometimes not.

Senator COUZENS. I still do not understand. If you signed those reports in behalf of Mr. Taylor, then you did it just as a matter of form and without any knowledge of your own as to whether Mr. Taylor had conducted an efficient and competent examination?

Mr. PATTERSON. Why, Senator, many of these reports are signed by the chief clerk in the chief examiner's office when the chief examiner is away from the office.

Senator COUZENS. So those examiners are free-lances and there is no one around anywhere apparently to check up on the examiners to see whether they are doing competent and efficient work—is that not a fact?

Mr. PATTERSON. No; I would not say that.

Senator COUZENS. Just what is the check? I am trying to find out what check there is to find out whether the national-bank examiner does a proper and efficient job. Whose responsibility is it and who passes on it?

Mr. PATTERSON. It is likely reflected in the kind of reports he makes and the amount of correction of criticizable things he discovers.

Senator COUZENS. Well, in signing this report for Mr. Taylor you did not agree apparently with the statement that he made that these were technical violations and a contravention of the law; you did not agree, but you let it go by without any comment. Who is supposed to comment on that, the Comptroller's office?

Mr. PATTEROSN. Yes, sir.

Mr. PECORA. Does not the Comptroller's office look to the chief national-bank examiner for a review of the field report?

Mr. PATTERSON. Not in all cases, no, sir.

Mr. PECORA. Well, in what cases does the Comptroller of the Currency rely upon the chief national-bank examiner for a review of the field reports?

Mr. PATTERSON. Only in those cases where it is a very serious affair.

Mr. PECORA. And who is supposed originally to determine whether there is a very serious affair, as you call it?

Mr. PATTERSON. The examiner.

Mr. PECORA. And after him the chief examiner?

Mr. PATTERSON. Yes; he will frequently call upon the chief examiner for his advice.

Mr. PECORA. From the way you have described the manner in which you acted in transmitting after signing the reports of the field examiners under your supervision one might be led to believe that the chief national-bank examiner in each district is nothing more than a rubber stamp for the field examiners. That is not a sound conception of the chief examiner's function, is it?

Mr. PATTERSON. Well, that may be the way you have construed it. I believe in actual practice you would find differently.

Mr. PECORA. What would you find in actual practice that would make him anything more than a rubber stamp for the field examiner?

Mr. PATTERSON. You are referring to the report only?

Mr. PECORA. I am referring to the performance of duty by a chief national-bank examiner.

Mr. PATTERSON. Certainly not.

Mr. PECORA. If the chief examiner signs his name on the field examiner's reports as matter of routine, why is he anything more than a mere rubber stamp for the field examiner?

Mr. PATTERSON. Well, I would not say that he is a rubber stamp.

Mr. PECORA. Why not?

Senator COUZENS. As a matter of pride—that is all you say it for, not as a matter of fact?

Mr. PATTERSON. No; I think that if you could understand some of the duties of the chief examiner you would think that he was anything but a rubber stamp.

Senator COUZENS. That is what we are trying to find out.

Mr. PECORA. Yes. Tell us what the duties are.

Mr. PATTERSON. Well, I have just told you that while reports are signed by the chief examiner for the examiner upon his authorization to sign them, in difficult cases the chief examiner will immediately get into it himself and find out what is the matter and try to assist the examiner in the correction of serious affairs.

Senator COUZENS. Then you did not construe this as a difficult case?

Mr. PATTERSON. No, sir; apparently not.

Mr. PECORA. Why did you disagree with the conclusion of Examiner Taylor when he reported that these loans made by the banks secured by the stock of the holding company, which in turn owned practically all of the stock of the bank, were in circumvention of the National Banking Act prohibiting the making of loans secured by the bank's own stock?

Mr. PATTERSON. A holding company holding bank stock was a rather new thing in April of 1929, at least in the seventh district, and it was not clear to me that any position had been taken on it

by the Comptroller's office as to whether or not it did amount to a circumvention. I don't recall now that the Comptroller's office ever took a position on that point.

Mr. Pecora. You were thoroughly familiar with the provision of the Banking Act prohibiting a national bank from making loans secured on its capital stock, were you not?

Mr. Patterson. Yes, sir; except in those cases where they take the collateral for debts previously contracted.

Mr. Pecora. In the instance of the examination of the National Bank of Commerce made in April 1929 it was reported to you that loans had been made by the bank in contravention of that provision of the National Banking Act that I have just called your attention to. Why did you disagree with Examiner Taylor's conclusion in that respect?

Mr. Patterson. I have just stated that I did not believe it had been clearly outlined by the Comptroller's office that a circumvention had occurred, inasmuch as holding companies who held bank stocks were so new in the seventh district that it never had been decided.

Mr. Pecora. Was that any reason you took a position contrary to that advanced by the field examiner?

Mr. Patterson. That was the reason why I did.

Mr. Pecora. Well, weren't you called upon as the chief examiner for the district to reach some determination yourself on that? The mere fact that the question was a novel one to you was no reason why you should sidestep it, was it?

Mr. Patterson. No.

Mr. Pecora. As you now reflect on the situation, is it still your opinion that the making of those loans secured by the stock of the holding company which owned the stock of the bank was not in substance a contravention of the law?

Mr. Patterson. No, sir; I don't believe it is.

Senator Couzens. Will you explain why, because from a practical standpoint it seems to me that it is loaning money on the bank stock? I would like to have your angle of it.

Mr. Patterson. It is a direct loan on a corporation stock and not bank stock, as defined in the statute.

Mr. Pecora. You were looking here to form rather than substance when you reached that conclusion, were you not?

Mr. Patterson. That is right.

Senator Adams. Mr. Patterson, if the holding company had only held stock of this one bank could you have drawn that distinction then?

Mr. Patterson. No, sir. I beg your pardon—I did not understand your question, Senator.

Senator Adams. My question was this: You were drawing a distinction between loaning on a bank's stock itself and loaning on the stock of a corporation which held the bank stock.

Mr. Patterson. Yes, sir.

Senator Adams. I was asking you if the holding company had limited its ownership to the stock of the particular bank that was making the loan——

Mr. Patterson. Yes.

Senator ADAMS. Would you then have looked through the form to the substance of it?

Mr. PATTERSON. No; I don't believe I would change my opinion even then.

Senator ADAMS. You would have still thought that was all right?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you revere form more than you do substance?

Mr. PATTERSON. Well, no; I would not say so.

Mr. PECORA. Don't you think in effect that is what you were doing here?

Mr. PATTERSON. Well, as a matter of fact, I didn't do anything there, Mr. Pecora.

Mr. PECORA. Then you were a rubber stamp in this particular instance?

Mr. PATTERSON. No.

Mr. PECORA. You say you did not do anything, but you signed the report. Does the signing of the report represent an idle act? In other words, is your signature simply a rubber stamp signature?

Mr. PATTERSON. So far as the report is concerned it is merely a signature under the authorization of the examiner to transmit the report to the Treasury.

Mr. PECORA. Was it in substance a rubber stamp signature then?

Mr. PATTERSON. Oh, if you wish to call it that; yes, sir.

Mr. PECORA. All right.

Senator ADAMS. What became of the original pencil copy, which I assume was signed?

Mr. PATTERSON. That is filed in the chief examiner's office.

Senator ADAMS. You retain that?

Mr. PATTERSON. Yes, sir.

Senator ADAMS. That comes as a signed copy?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. In the examination of the National Bank of Commerce, made in the fall of 1930, the following criticism appears:

> Loans secured by Guardian Detroit Union Group stock, 48,431 shares of this stock held as collateral.
>
> New loans with this stock as collateral unfavorably regarded. Numerous loans based thereon at present lacking collateral coverage.

Did you, as vice president of the Group, whose special function it was to attend to or supervise examinations of the various banks, the unit banks of the Group, do anything about meeting this criticism?

Mr. PATTERSON. I do not recall that particular instance, except that I was almost in daily contact with officers of that bank in regard to many matters. I did not get the date of that report, Mr. Pecora.

Mr. PECORA. September 15, 1930.

Mr. PATTERSON. By that time the market price of the collateral had gone off seriously, which accounts for the examiner's statement that the collateral is short, I believe you said, or words to that effect.

Mr. PECORA. He said, "Numerous loans based thereon at present lacking collateral coverage."

Mr. PATTERSON. That is right.

Mr. PECORA. He also called attention to the fact that over 48,000 shares of the Group stock was held as collateral for loans by the National Bank of Commerce.

Mr. PATTERSON. Yes, sir.

Mr. PECORA. So that the amount of such stock had increased over the amount reported during the preceding year?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Which leads to the conclusion that the condition called attention to in the preceding year had not been allayed but had been permitted to become aggravated?

Mr. PATTERSON. Largely because of the fact that they had to acquire any and all collateral possible in order to protect the loans. I will say now, without knowing the circumstances, that no new loan was made.

Mr. PECORA. Don't you know that the number of loans increased substantially, which were secured by the group stock, by September 1930?

Mr. PATTERSON. No, sir; I do not recall.

Mr. PECORA. The next examination of the bank—that is, the National Bank of Commerce—appears to have been made as of March 2, 1931, and the field examiner happened to be Mr. R. L. Hopkins in that instance, who finally became an officer of the group or one of its unit banks. Do you recall that?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you recall the condition reported by Examiner Hopkins as the result of his examination of March 1931, with respect particularly to the amount of group stock held as collateral by the National Bank of Commerce?

Mr. PATTERSON. No, sir; I do not recall that.

Mr. PECORA. Do you recall that the report indicated that the condition had continued to become aggravated instead of relieved?

Mr. PATTERSON. I do not even recall having seen that particular report.

Mr. PECORA. Were these reports kept from you?

Mr. PATTERSON. No, sir; they were kept by officers of the bank.

Mr. PECORA. But you, as the vice president of the group, were specially charged with the function, as I understood your testimony earlier this morning, of supervising these reports made by your bank examiners.

Mr. PATTERSON. No; not supervising the reports.

Mr. PECORA. To act upon the conditions indicated by the reports?

Mr. PATTERSON. We endeavored to make our own examinations; and my testimony was with respect to Messrs. Bryan and Penningroth, and not with respect to the national bank examiners' reports after I had gone with the Group.

Mr. PECORA. Let me read to you the following criticism made by Examiner Hopkins in March 1931:

> The bank has necessarily had to be lenient in their attitude in dealing with loans secured by the stock of their parent corporation, and undoubtedly a policy of reducing the aggregate of such loans will be carried out as soon as practicable.

Do you recall that?

Mr. PATTERSON. No; I do not.

Mr. PECORA. Do you recall the condition that prompted the bank to be lenient in its attitude toward loans secured by the stock of the Group or, as Mr. Hopkins calls it, the "parent corporation"?

Mr. PATTERSON. No; I do not think I do recall that.

Mr. PECORA. Were those criticisms being lightly passed over or ignored by the Group officers?

Mr. PATTERSON. Certainly not.

Mr. PECORA. What was being done about this particular item of criticism between 1929 and the spring of 1931?

Mr. PATTERSON. Everything that it was humanly possible for officers of the bank to do, to reduce loans which were already under-collateral because of the shrinkage in security values, and particularly in that stock, the holding company's stock.

Mr. PECORA. What, specifically, was done?

Mr. PATTERSON. The collection of the loans or the acquisition of additional collateral to strengthen the loans.

Mr. PECORA. Was any measurable success made at all in that respect?

Mr. PATTERSON. I think so.

Mr. PECORA. Let me read further to you what Mr. Hopkins had to say in his report of the March 1931 examination, under the caption of "List of Items Requiring Attention":

> Loans secured by the capital stock of the Guardian Detroit Union Group. The management should seriously consider the possibility of an unwarranted concentration being brought about through an apparent liberal policy in extending loans predicated on shares of an affiliated or parent concern. Many of the loans classified as slow in this report are secured by this stock and now show a deficit due to the reduction in market value. Being unable to forecast the future trend of the market price of this stock no other course is felt warranted. Should the stock increase in market value to an average over the past 18 months many of these loans will automatically be removed from the classified section. The bank has necessarily had to be lenient in their attitude in dealing with loans secured by the stock of their parent corporation, and undoubtedly a policy of reducing the aggregate of such loans will be carried out as soon as practicable.

Mr. PATTERSON. I do not recall those remarks; I do not think I ever heard them before.

Mr. PECORA. You were an executive officer of the group and a former chief national bank examiner who, you said, were specially charged with the function, as such vice president of the group, to look into the condition from time to time of the various unit banks of the system. Now, you are telling us that the report of the national bank examiner on the National Bank of Commerce, one of the unit banks, made in March 1931, was not brought to your attention by anybody?

Mr. PATTERSON. I do not think it was.

Mr. PECORA. How do you account for that?

Mr. PATTERSON. I do not know.

Mr. PECORA. Do you think there was any studious attempt to keep this information from you?

Mr. PATTERSON. No; I do not believe so.

Mr. PECORA. But you are unable to account for the fact that this report was not brought to your attention?

Mr. PATTERSON. I would like to ask, Mr. Pecora, whether you are reading from the confidential section of that report or the open section of the report, in those remarks?

Mr. PECORA. This is the open section of the report.

Mr. PATTERSON. I do not recall ever having seen it, sir.

Mr. PECORA. Can you give any reason why you did not see it? Do you know why it was withheld from you or that you were not permitted to see it, by anybody?

Mr. PATTERSON. No, sir.

Mr. PECORA. You knew an examination had been made, did you not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Did you call for the report?

Mr. PATTERSON. No; I did not.

Mr. PECORA. Why didn't you do that?

Mr. PATTERSON. We were going on our own reports pretty largely.

Mr. PECORA. When you say that, do you mean that you were ignoring the reports made by the national bank examiners and relying upon the examinations made by your own men?

Mr. PATTERSON. No; not ignoring them at all.

Mr. PECORA. Apparently, when you had not even seen the report or had it brought to your notice, if you were not ignoring it somebody was seeing to it that you did not learn of it.

Mr. PATTERSON. I do not know who it was.

Mr. PECORA. Why did you not call for the report of an examination that you knew had been made?

Mr. PATTERSON. As I say, we were relying on our own reports of examinations.

Mr. PECORA. More than you were on the reports of the national bank examiners?

Mr PATTERSON Well, yes

Mr. PECORA. Do you think that is a fair guide, Mr. Patterson, for a bank officer to be guided more by an examination made by some one employed by the bank rather than an examination made under the independent auspices of the Comptroller of the Currency?

Mr. PATTERSON. Well, frankly, Mr. Pecora, I had a little more faith in our own men in making our own examinations.

Senator ADAMS. Were you a director of the bank?

Mr. PATTERSON. No, sir; I was not.

Senator ADAMS. You do know that the bank directors are forced to send word to the Comptroller's office that they have personally given consideration to these reports?

Mr. PATTERSON. Yes, sir; I know that.

Mr. PECORA. Mr. Patterson, let me repeat part of the language of this criticism:

> The management should seriously consider the possibility of an unwarranted concentration being brought about through the apparent liberal policy of extending loans predicated on the shares of an affiliated or parent concern.

In view of that language, how is it that the management, or at least that part of the management that you took part in, did not even consider this report or learn of it?

Mr. PATTERSON. I was not a part of the management of the bank.

Mr. PECORA. Would you think that referred only to the management of the bank?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. The stock of the bank was owned by the group. Did not that place the responsibility for the management of the bank directly upon the group's officers and board?

Mr. PATTERSON. Not entirely; no. The management of each bank was left up to its own officers and its own directors.

Mr. PECORA. Without any supervision by the group?

Mr. PATTERSON. Oh, yes.

Mr. PECORA. Why was not that supervision given to it in this instance?

Senator COUZENS. When you said, "Oh, yes", what did you mean?

Mr. PATTERSON. I have lost it now, Senator Couzens.

Senator COUZENS. The reporter will read the question and the answer, please.

(The question and answer referred to were read by the reporter as above recorded.)

Mr. PATTERSON. I was mistaken. I would like to change it and say no.

Senator COUZENS. Then it was under some supervision of the group?

Mr. PATTERSON. Yes.

Senator COUZENS. It appeared before in the evidence that they were dictating the dividend policies of the banks, so I thought you must have been in error when you made your answer, "Oh, yes."

Mr. PATTERSON. When I say that the banks were supervised by the group, I mean we made examinations of them and we were in daily contact with whatever problems they had. The management of the National Bank of Commerce was very well regarded, and I am sure that they put full confidence in a criticism of Mr. Hopkins or other examiners and they did all they could to protect bad loans as security values were fluctuating.

Senator COUZENS. Who employed Mr. Hopkins in the group?

Mr. PATTERSON. The employment of Mr. Hopkins came about in this way, Senator. Mr. Mott, of Flint, had talked to Mr. Covington and myself about the affairs there, and he asked us if we could make a suggestion for some one to take Mr. Wilkin's place. Mr. Covington and I conferred and we thought that Mr. Hopkins would make a desirable bank officer in Flint, and suggested his name to Mr. Mott. Later on Mr. Mott and Mr. Hopkins were brought together.

Senator COUZENS. So you recommended, or at least joined in the recommendation of Mr. Hopkins to Mr. Mott?

Mr. PATTERSON. Yes, sir.

Senator COUZENS. I assume you know that Mr. Hopkins had been reporting to the Comptroller of the Currency that they should be lenient with your Group, do you not?

Mr. PATTERSON. No; I did not know that.

Mr. PECORA. You said that you depended more on your own examinations of these unit banks than on the examiners, the national bank examiners. Was a report of the examining committee of this bank, that is, of the National Bank of Commerce, made in May 1931?

Mr. PATTERSON. I do not know.

Mr. PECORA. Well, perhaps this will serve to refresh your recollection, if I read to you the following extract from a report made by the examining committee of the National Bank of Commerce in May 1931?

Senator COUZENS. Will you please state at that point who the examiners were, Mr. Pecora?

Mr. PECORA. The members of the examining committee were as follows: Edwin H. Nelson, John R. Russel, George H. Klein, Francis C. McMath, and Hal H. Smith.

I will read the entire report, Mr. Patterson to see if it refreshes your recollection [reading]:

The committee has reviewed in detail every loan which has been marked "slow, doubtful, or loss" by either the national bank examiner or by the bank's officers, and has discussed as to each of said loans the responsibility of the maker, the security to the loan, and the prospects of payment. The total estimate of loss ($3,097,944.73 on 268 loans) represents a combined judgment of the committee and the bank's officers as to such loss. It has not yet been able to review in detail the bonds, securities, and mortgages owned by the bank. It has accepted the statement of the national bank examiner as to the bank's cash, the correctness of its accounts and the physical presence of the bank's securities in its vaults.

The large amount of the estimated loss on the loans calls for some explanation and comment by the committee. It is the opinion that the major cause of these larger losses and the greater number of loans which have been so estimated has been the poor credit information assembled by the credit department in the past and the lack of proper organization of the loaning responsibility in the officers of the bank. These two major causes have, however, as the committee believes, now been corrected. The credit department has been reorganized and remanned and the loaning responsibility and authority of the officers has been radically and materially strengthened. All poor credits cannot be eliminated, but the committee has reason to believe that the fundamental defects have been removed.

The committee, however, feels called upon to make the following suggestions and recommendations as to future policies for which it asks the approval of the board:

1. Not sufficient attention has been paid in the past to the character of the respective borrowers and their income capacity. Too much emphasis has been placed on the collateral alone. A large number of loans have been made on what was sufficient collateral at the time of the inception of the loan, but where the maker was of doubtful earning capacity and not good character as a credit risk. This should be corrected in the future. The fundamental of every loan should be the character of the borrower and the excess of collateral should not justify a loan to any one of doubtful honesty or without any material earning capacity.

2. The committee finds in the list of bad loans many loans that obviously have no other purpose than speculation in the stock market. The makers of these loans had only limited earnings and no prospects of the payment of the loan otherwise than the rise in stock prices. They are made to clerks, stenographers, bank officers and bank clerks, salesmen, and others whose income was not sufficient to warrant any substantial credit. These loans should be definitely discouraged in the future.

3. The committee finds also in the list of bad loans, loans to officers of this bank and officers in other banks which were clearly made to assist or further stock-market operations. This class of loans has been a source of loss to the bank, and the encouragement of these loans has ruined many worthy bank officials. In the future no loaning officer of this bank should be permitted to have a margin account or should become indebted to this bank or any of its correspondents to purchase stocks. If knowledge of loans of this character made by any officer of this bank comes to the attention of the officials of this bank the officer should be required to close out such loans at the earliest practicable moment. Applications by, officers of other banks for this class of loans should be reported to executives of that bank before any action is taken. These rules should be rigidly enforced.

4. One of the major causes of loss has been loans to real-estate operators and companies engaged in real-estate operations and stock equities in real estate. In almost every instance the real estate has been subject to prior indebtedness, and the loan, therefore, no matter what form it takes, is certainly no better than a second mortgage. This class of loans should be definitely eliminated. Loans on real estate or any equity therein should not be accepted except in particular instances, and on approval of responsible committees of the bank.

5. We find on the list of loans a substantial number of individuals who have been recommended by directors of the bank for such loans, loans to friends of directors whose only claim for the accommodation is that of acquaintanceship, loans to associates of directors in business, and loans to concerns in which the directors are interested or in which they were officers. Obviously the cases in which a director should recommend any loan to the bank without his endorsement should be rare. Where there is any doubt as to the credit or the matter of a loan is as described above, the endorsement of the directors should be asked. This rule should be applied to the loans now in the bank and any loans made in the future.

6. The committee finds in the list of bad loans a great many so-called "policy" loans. Judges of courts, referees in bankruptcy, and other political officers have been extended substantial credit. Many of these loans are doubtful. All these loans should be stopped, and the so-called "policy" loans should be eliminated. Doubtful loans made where the action is in reality the hope of securing a deposit should be eliminated. Every loan should, in the future, meet the single test of the maker's ability to pay, independent of all the foregoing considerations.

7. We have, in the course of the examination, found that the makers of some slow and doubtful loans have complained that they made the loan in order to buy certain securities recommended by an officer of the bank or securities in which this bank or some affiliated institution was directly or indirectly interested. Loans made for this purpose should be rigidly scrutinized and a definite policy should obtain, except in cases where there is some good reason for the exception, of declining loans for the purpose of financing the purchase of any securities in which this bank or its affiliates are directly or indirectly interested.

8. Instances were brought to the attention of the committee where certain officers of the bank have recommended the purchase of stock or securities. A definite rule should be established that this should not be done, and the officer breaking this rule should be promptly disciplined.

9. The bank has been from time to time requested to purchase bonds or other securities on a repurchase agreement. This is not sound banking practice and should be discouraged even with the members of the Guardian Detroit Union Group.

10. The committee feels that the discount committee of the bank has not been given the opportunity to pass on a sufficient number of the loans in the past, and has not given sufficient attention to the application of the borrowers. It is obvious that the committee could not pass upon all minor loans, but if it were frequently convened it could see that the loaning policy of the bank as fixed by the board was maintained. We recommend that the committee be asked to meet frequently and that every loan and its renewal be submitted.

11. The credit files do not contain all the information that the officers desire. The committee recommends that the officers should be instructed to ask for a certified balance sheet and detailed statements of all unsecured loans of corporations of $10,000 or over.

12. The large deposit accounts which the bank has on which demands may be made at any time for substantial payments require, in the opinion of the committee, that particular attention be given to the investment of funds in commercial paper and in loans that are eligible for rediscount with the Federal Reserve bank or in securities in which there can be an immediate realization. This policy is, in the opinion of the committee, more important than the increase of our miscellaneous deposits or the distribution of our loans and discount facilities over a wide range of borrowers.

13. The amount of investments of the bank in bonds and securities is so great that the committee believes that the responsibility of keeping a daily check on the situation of these bonds and securities, if not now delegated, should be delegated to some one officer designated by the president. A special committee should be created for the purpose of reviewing these investments at least once a month. The purchase of bonds should continue to be handled by the president. The constantly changing situation on municipal securities and the fluctuations in the value of other bonds require, in our opinion, much more constant and detailed consideration of this class of the bank's assets than has been given it in the past.

14. The bylaws of the bank at the present time require that the examining committee count the cash and verify the accounts of the bank. This is too great a responsibility for the committee. It is obvious that it should do neither. The bylaws should be amended to relieve it of this responsibility. It should still be required, however, to examine the loans and investments in detail and still be permitted to report its recommendations as to the general policies of the bank. The committtee will, if it be continued, examine the mortgages and the bonds of the bank and make a further report thereon.

A schedule of the criticized loans is attached. It is likely that a salvage will be made from these loans, but the committee urges that full support be given to the particular officers who now have the direct responsibility for those collections, and that every officer make every effort to realize as much as possible on these debts. The progress on this work should be reported monthly to the board.

Respectfully submitted.

That is the end of the report, with the exception of the schedule of the criticized loans.

The CHAIRMAN. It is something like locking the stable door after the horse has been stolen.

The committee will now take a recess until half past 2.

(Whereupon, at 11:45 a.m., a recess was taken until 2:30 p.m., the same day, Jan. 3, 1934.)

AFTER RECESS

The subcommittee resumed at 2:30 p.m. on the expiration of the recess.

The CHAIRMAN. The subcommittee will resume.

TESTIMONY OF BERT K. PATTERSON—Resumed

Mr. PECORA. Mr. Patterson——

Mr. PATTERSON (interposing). Mr. Pecora, might I make a few remarks with regard to the testimony of this morning?

Mr. PECORA. Yes.

Mr. PATTERSON. In connection with certain criticisms of bank examiners, in the matter of examination of the National Bank of Commerce of Detroit during 1929 and 1930, where there was raised the question as to the legality of a national bank lending against collateral of a holding company: During the noon recess one of my associates called my attention to a letter, which I had never seen before, written by the Comptroller of the Currency to another national bank examiner in January of 1929, and with your permission I should like to read the letter. One of my reasons for asking this permission is that it will show, I think, that examiners reported directly to the Comptroller of the Currency, and had the privilege of writing the Comptroller in regard to examinations, or on any other subject; and, secondly, it will be somewhat of a confirmation of my idea at the time and which I testified to this morning.

The CHAIRMAN. Have you the original letter or is that a copy?

Mr. PATTERSON. This is a copy.

The CHAIRMAN. Do you know whether it is a correct copy?

Mr. PATTERSON. Yes, sir; I believe it is a correct copy.

The CHAIRMAN. All right.

Mr. PATTERSON. It is in confirmation I think, too, of what my idea was relative to the legality of the stock as collateral in a national bank. This letter is dated January 10, 1929, and is addressed to Earl W. Moon, national bank examiner, 164 West Jackson Boulevard, Chicago, Ill.:

DEAR SIR: Your letter of January 4 is received requesting an answer to your letter of December 19.

You state that the officers, directors, and stockholders interested in the Union Trust Company, Griswold First State Bank, and the National Bank of Commerce, all of Detroit, Mich., have organized a corporation known as the Union Commerce Investment Company, but that this corporation is in reality a holding company for the stock of these three institutions; that the assets of the Union Commerce Investment Company consist of the total capital stock of the three institutions except for directors' qualifying shares, and request to be advised whether the National Bank of Commerce may lawfully and without criticism hold stock of the Union Commerce Investment Company as collateral to loans.

The stock of the corporation referred to is not capital stock of the bank within the meaning of section 5201 of the United States Revised Statutes, even though a part of its assets consist of stock of the bank. In the matter of accepting stock of the company as collateral to a loan, it is one for the determination of the management of the bank, although this office does not look with favor on loans secured by stock of a company so closely allied to the bank and having little or no assets other than the stock of banks, national and state.

Your letter of December 19 was inadvertently placed in the files before being answered.

Respectfully,

JOHN S. PROCTOR, *Deputy Comptroller.*

Mr. PECORA. Have you another copy of that letter?

Mr. PATTERSON. I only have this one.

Mr. PECORA. Will you let me have it?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. I want to have the text of it before me.

Mr. PATTERSON. Here it is.

Mr. PECORA. Is there any other statement that you want to make before I resume your examination?

Mr. PATTERSON. I believe not.

Mr. PECORA. Now, when did this letter which you have just read into the record, first come to your attention, Mr. Patterson?

Mr. PATTERSON. This noon.

Mr. PECORA. And through what channels was it brought to your notice this noon?

Mr. PATTERSON. Mr. Frank Blair called my attention to it.

Mr. PECORA. Who is Mr. Frank Blair?

Mr. PATTERSON. Mr. Frank Blair used to be the president of the Union Trust Co., and later on of the Union Guardian Trust Co., and is now connected with the Union Joint Stock Land Bank of Detroit.

Mr. PECORA. I notice that this letter, or the copy thereof which you handed to me, is addressed by the Deputy Comptroller to the national-bank examiner in Chicago.

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you know how it happens to find its way in the possession of anyone not connected with the Comptroller of the Currency?

Mr. PATTERSON. No, sir; I do not.

Mr. PECORA. Did you know Mr. Earl W. Moon, National Bank Examiner, to whom this letter was addressed?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Did he serve under you at any time?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you advance this letter now, or the information or ruling, whatever you may prefer to call it, therein contained, as a justification for your having disagreed with the conclusion or judgment of Mr. Taylor, national bank examiner, or field examiner, under you, who examined the National Bank of Commerce in 1929, and from whose report I read to you this morning?

Mr. PATTERSON. Well, I offer it here because I do not think the question was very clear to the subcommittee this morning, in view of the examiner's criticism. And it is the first thing I have seen bearing on the subject.

Mr. PECORA. You will recall that what Mr. Taylor said in his field report was not that the lending of money on collateral consisting of

stock of the holding company, which in turn owned the stock of the bank, was not a violation of the banking law, but rather was a circumvention of it.

Mr. PATTERSON. Yes.

Mr. PECORA. You understand that there is a clear distinction between a violation and a circumvention of any legal provision, don't you?

Mr. PATTERSON. Yes.

Mr. PECORA. Well, apparently the Deputy Comptroller in this very letter that you now advance as a measure of justification for your judgment, felt that in some fashion or other it was an unwise policy for a national bank to make loans on security consisting of the stock of a holding company which in turn owned all the stock of the bank, or substantially all of it. Don't you observe that statement in Mr. Proctor's letter?

Mr. PATTERSON. Yes; I know it is there.

Mr. PECORA. He says:

> "In the matter of accepting stock of the company as collateral to a loan, that is one for the determination of the management of the bank, although this office does not look with favor on loans secured by stock of a company so closely allied to the bank and having little or no assets other than the stock of banks, national and state."

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you disregard that statement by Mr. Proctor?

Mr. PATTERSON. No; I do not. But as I say——

Mr. PECORA (interposing). Do you think it is sound?

Mr. PATTERSON. I think it is.

Mr. PECORA. Did you think it was sound back in 1929 when you disagreed with the judgment or conclusion expressed by Mr. Taylor, your subordinate field examiner?

Mr. PATTERSON. Well, Mr. Pecora, I think that, as I stated this morning, as to the legality of the thing, that was something for the Comptroller to pass upon.

Mr. PECORA. You also stated this morning that you did not agree with Mr. Taylor's statement.

Mr. PATTERSON. That is true.

Mr. PECORA. That those loans so secured were a circumvention of the law as distinguished from a violation of it.

Mr. PATTERSON. Oh. Well, I misunderstood you, then. I thought you meant that it was a violation of law.

Mr. PECORA. No. I read the exact language contained in Mr. Taylor's report, which was signed by you as Chief Examiner.

Mr. PATTERSON. Well, I think I would still believe that it was not a circumvention of the law.

Mr. PECORA. Wasn't it in effect the making of loans on security that rested on the bank's stock?

Mr. PATTERSON. That is right.

Mr. PECORA. Isn't that a circumvention of that provision of the law which directly prohibits the making of such a loan, directly secured by the bank's stock?

Mr. PATTERSON. Well, I think that is a legal matter, and I do not believe I could answer it.

Mr. PECORA. Apart from its legality, apart from its legalistic aspect and as a matter of substance don't you think it is just as much a violation of the spirit of the law?

Mr. PATTERSON. No; I do not think so.

Mr. PECORA. Do you think it is in accord with both the spirit and the letter of the law?

Mr. PATTERSON. I do.

Mr. PECORA. What do you think was the purpose of the enactment which prohibited national banks from making loans secured by their own stock?

Mr. PATTERSON. I do not believe I could answer that question either.

Mr. PECORA. Why not?

Mr. PATTERSON. Well, it was, perhaps, for the purpose of preventing the lending of the bank's own capital.

Mr. PECORA. That is sound public policy, isn't it?

Mr. PATTERSON. Yes, sir

Mr. PECORA. Now, where a bank's own capital is owned by another corporation, not organized under the banking laws but practically whose sole asset is the bank's capital, don't you think a loan made by such a bank secured by the stock of the holding company, is in effect a loan secured by the stock of the bank?

Mr. PATTERSON. No; I do not.

Mr. PECORA. What are the differences?

Mr. PATTERSON. I think you are lending against entirely different collateral.

Mr. PECORA. Well, of course it is different collateral in form, but the value of the collateral upon which the loan is made is dependent upon the value of the bank's stock, which is the sole asset of the company whose security in the shape of stock is taken as collateral. Isn't that a fact?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. You still see a difference between the two?

Mr. PATTERSON. As to form, I think there is a difference.

Mr. PECORA. Oh, there is no doubt that there is a difference as to form, but why do you ignore the substance?

Mr. PATTERSON. Well, I suppose you would have to recognize that, too.

Mr. PECORA. Well, do you recognize it?

Mr. PATTERSON. Yes.

Mr. PECORA. And recognizing the substance do you still say that there is fundamentally a difference between the two acts?

Mr. PETERSON. I think if you followed it right on through you would trace it on to a violation.

Mr. PECORA. Do what?

Mr. PATTERSON. That you would probably trace it on to a violation.

Mr. PECORA. Did you follow it through while you were the executive vice president of the group?

Mr. PATTERSON. We accumulated that stock largely as the result of other loans, and we did all we could, all that was humanly possible, during the shrinkage in values, to get the loans out of the bank. We were fighting a war in Detroit, and every loan officer was doing

all he possibly could to get that collateral out, not only in Detroit but all over Michigan.

Mr. PECORA. You were fighting a war in Detroit, were you?

Mr. PATTERSON. That is right.

Mr. PECORA. Fighting a war against whom?

Mr. PATTERSON. Against the depression, and the shrinkage of values.

Mr. PECORA. And in order to enable you to fight that war successfully the bank was doing the things that its own examining committee complained of in this report of May 1931, including the making of so-called "policy loans" to the politicians; isn't that so?

Mr. PATTERSON. No.

Mr. PECORA. Was that a part of your campaign to fight the war against depression?

Mr. PATTERSON. No.

Mr. PECORA. And for the conservation of the depositors' interests?

Mr. PATTERSON. The loans that you read this morning were old loans, and they were not made during the time we were "fighting the war" as I term it.

Mr. PECORA. Well, if they were old loans why hadn't they been liquidated at the time that the bank came under the control of the Group?

Mr. PATTERSON. The loans at that time that came under the control of the group, as I remember the situation, were probably good loans as to their security.

Mr. PECORA. Well, isn't that at variance with what the examining committee reported in May of 1931?

Mr. PATTERSON. That was considerably after the time when collateral values had slipped off.

Mr. PECORA. Did you see a copy of this examining committee's report that I read into the record this morning?

Mr. PATTERSON. I think I did.

Mr. PECORA. Did you do anything about it?

Mr. PATTERSON. That was left to the management of the bank.

Mr. PECORA. What was done, if anything, by the management of the bank, do you know?

Mr. PATTERSON. As I say, I think they did all they possibly could.

Mr. PECORA. Do you know what they did?

Mr. PATTERSON. No, sir.

Mr. PECORA. Did the group do anything about it?

Mr. PATTERSON. No, sir.

Mr. PECORA. Why not?

Mr. PATTERSON. Except to institute a policy in regard to any new loans based upon group stock.

Mr. PECORA. Now, you said that the group sought to remedy the situation represented by its unit banks holding large blocks of stock of the group as collateral for loans, by seeking to have those loans reduced by payment. Let me call your attention in that regard to the following item of criticism:

> Loans secured by Guardian Detroit Union Group stock: 48,431 shares of this stock held as collateral.
>
> New loans with this stock as collateral unfavorably regarded. Numerous loans based thereon at present lacking collateral coverage.

Now, that was based upon an examination as of September 15, 1930. The next examination of that bank was made as of March 2, 1931, and it indicates that at that time there were 57,531 shares of Group stock held by the bank as collateral for loans, as against 48,431 shares of that stock held in September of 1930. So apparently the group had not succeeded in effectuating what you said was the policy it embarked upon with regard to clearing those loans secured by group stock; isn't that so?

Mr. PATTERSON. It is my opinion, without knowing what the records are between those dates, that any increase in collateral in group stock to any loans, was due to the acquisition of additional collateral of that type to protect poor loans. I do not believe there were any made, or none that I know of at least, any new loans based entirely upon group stock, or largely upon group stock, after the policy had been instituted some time in 1930 as I recall it. They were trying to get any and all collateral they possibly could together, and if that consisted only of group stock the officers took it.

Mr. PECORA. Now let me read to you from the report made by Mr. Hopkins, field examiner, and who afterwards became connected with the Group, based upon his examination of the bank as of March 2, 1931:

> Your examiner is of the opinion that the loans secured by the stock of the Guardian Detroit Union Group constitute an unwarranted concentration. The bank is handicapped in liquidating its debts from the sale of this stock for the reason that the most of its shareholders acquired the stock at a period when it was selling on the market anywhere from $100 to $300. At the beginning of the examination the market value of the stock was $50, and at the time the examination closed the market value had dropped to $40 due to the closing of the American State Bank.
>
> Your examiner has no opinion as to the recovery of the stock, but it is surmised that a long period will be required before the bank is in position to eliminate many of these losses.

Were you familiar with that criticism made by Mr. Hopkins?

Mr. PATTERSON. I do not believe I ever read it, but it sounds familiar.

Mr. PECORA. You have said this afternoon, referring to those loans that were secured in large part by the stock of the Group or holding company that owned the bank's stock, that you thought the most of those loans were old loans and had been made before the Guardian Detroit Union Group had acquired control of the bank. Am I correct in that statement of your testimony?

Mr. PATTERSON. You are substantially correct, I believe.

Mr. PECORA. Then those loans must have been made at the time when you were the chief national bank examiner in that district, isn't that so?

Mr. PATTERSON. That is probably so, and probably before then.

Mr. PECORA. Was that fact brought to your attention?

Mr. PATTERSON. No, sir; it was not.

Mr. PECORA. Well, wasn't it actually brought to your attention by Mr. Taylor, among other persons, in his report of the bank of April 1929?

Mr. PATTERSON. Not particularly that phase of it; no, sir.

The CHAIRMAN. When did the Commerce and those other unit banks begin to call in their loans and refuse loans?

Mr. PATTERSON. During the latter part of 1930, I believe, Senator Fletcher, and continuing through 1931, all banks were liquidating as fast as they could.

The CHAIRMAN. In the latter part of 1930?

Mr. PATTERSON. Yes, sir.

The CHAIRMAN. I thought that was begun pretty soon after October of 1929.

Mr. PATTERSON. Well, I do not believe many of them began as soon as that.

Mr. PECORA. While I am waiting for some data let me ask you this, Mr. Patterson: You heard the testimony week before last submitted to this subcommittee while Mr. Lord was on the stand, with regard to the policy of the group not to have its unit banks show any bills payable on statements made in compliance to the call of the Comptroller of the Currency from time to time for such statements, didn't you?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. You are familiar with that testimony?

Mr. PATTERSON. Yes.

Mr. PECORA. What do you know about that policy?

Mr. PATTERSON. I know that we were trying to make as good a showing in all the banks as we could, at all times. Where there were excess funds in the Guardian Bank and other units of the group were in need of funds, the Guardian Bank made deposits in those unit banks.

Mr. PECORA. To enable them, primarily, or rather temporarily, to take care of bills payable items?

Mr. PATTERSON. Or any other items.

Mr. PECORA. To enable them to take care of bills-payable items specifically, I ask?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Did you approve of that policy?

Mr. PATTERSON. That was the policy that had been in current use by many banks for years.

Mr. PECORA. Did you approve of that policy, Mr. Patterson, is what I asked you.

Mr. PATTERSON. I was going to add, inasmuch as the Guardian Bank was in funds to lift those bills payable, I approved it; yes, sir.

Mr. PECORA. In other words, you approved of a policy which had for its object a window-dressing purpose, didn't you?

Mr. PATTERSON. Well, that is the term commonly used.

Mr. PECORA. That is the vernacular.

Mr. PATTERSON. Yes, sir.

Mr. PECORA. But it is a very apt characterization of the situation, isn't it?

Mr. PATTERSON. Yes, sir; that was quite widespread in its use. Many banks have done that sort of thing.

Mr. PECORA. Did you approve of it in principle?

Mr. PATTERSON. No; I cannot say that I did, Mr. Pecora.

Mr. PECORA. Did you disapprove of it in principle by any affirmative action that you took?

Mr. PATTERSON. No. As a matter of fact, however, I think that in view of the circumstances, wherever it was used, in certain units of the Group, that at the time it was done it was probably the very

best thing to do. The war that we were fighting in Michigan had worn the morale of the people to a very low point, where they were very much concerned about banks in general.

Mr. PECORA. And you thought that morale could better be sustained by misrepresentation.

Mr. PATTERSON. I did not consider it misrepresentation.

Mr. PECORA. Well, was it anything other than misrepresentation in substance if not in form?

Mr. PATTERSON. In principle I did not approve of the practice wherever it could be avoided. However, the circumstances, I repeat, justified it in my mind.

Mr. PECORA. Do you recall any instances where a large depositor of any one of these unit banks was asked to help out in a temporary situation by the making of a large deposit which was permitted to remain on deposit for only a few days or a very short period of time?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. How frequently was that done, Mr. Patterson?

Mr. PATTERSON. I personally know of two instances.

Mr. PECORA. And who was the depositor who was asked to make such temporary deposits?

Mr. PATTERSON. General Motors Corporation.

Mr. PECORA. Anyone else?

Mr. PATTERSON. Not that I know of personally.

Mr. PECORA. Do you know of any instance where a large depositor of any one of the unit banks also maintained a very large deposit account in a Chicago bank and near the end of the year, of a certain year, in response to a request from the Group or its officials drew out a large sum from its Chicago bank by check, deposited it in the Detroit bank and then drew it out of the Detroit bank by check, and the two checks crossed in the mails?

Mr. PATTERSON. No.

Mr. PECORA. Do you know of any such instance?

Mr. PATTERSON. I don't believe I do.

The CHAIRMAN. How long has that practice been going on among banks, the practice of banks eliminating temporarily in this way bills payable?

Mr. PATTERSON. Why, I don't know, Senator, for how many years, but in certain distressed areas of the country where bank failures have been the rule it has been a common practice probably for 10 years, perhaps.

The CHAIRMAN. As bank examiner did you have occasion to inquire into that sort of practice or disapprove of it in any way?

Mr. PATTERSON. Yes, sir; we did.

The CHAIRMAN. Generally you would not as an examiner condone or favor a practice like that?

Mr. PATTERSON. It would depend upon the circumstances, Senator, just as it did in our Group during 1930, '31, and '32. I do not want to speak for all national bank examiners, but I think a constructive examiner will take into consideration the existing circumstances.

The CHAIRMAN. Did you ever know of any just such circumstance arising before?

Mr. PATTERSON. Yes. Where a bank is an important one and more or less in a distressed condition, efforts upon the part of national bank examiners are to try to save the bank from disaster, and in the course

of that if they are successful in getting large deposits in the bank in order to make a better showing in a statement which will not arouse the public, many of them practiced it.

The CHAIRMAN. The effect of it was to represent to the public that the bank's financial condition was better than it really was, was it not?

Mr. PATTERSON. The general idea was to protect the larger public interest and prevent failure, prevent a run.

Senator COUZENS. When you were on the witness stand week before last, Mr. Patterson, I think you were asked the question whether you purchased any stock which you had contracted to purchase when you entered the employ of the Guardian Group. Is that correct?

Mr. PATTERSON. Yes. I contracted to purchase 300 shares of stock. The contract is dated October 1, 1929, and calls for the purchase of 300 shares at $275 a share.

Senator COUZENS. Did you purchase that?

Mr. PATTERSON. I did not pay for it.

Senator COUZENS. You did purchase it, though?

Mr. PATTERSON. The contract was signed, yes, sir.

Senator COUZENS. Well, did you follow out the contract?

Mr. PATTERSON. I paid about $11,000 in interest on that contract, nothing on the principal.

Senator COUZENS. Did you borrow any money to do that with?

Mr. PATTERSON. No, sir.

Senator COUZENS. Are you a bank examiner now out of the seventh district?

Mr. PATTERSON. I am employed by the Federal Reserve Bank of Chicago.

Senator COUZENS. And what are your activities with the Federal Reserve Bank of Chicago?

Mr. PATTERSON. I have been principally engaged in the handling of applications by State banks for membership in the Federal Reserve system.

Senator COUZENS. Are you in debt to any of the banks?

Mr. PATTERSON. No, sir.

Senator COUZENS. You are not in debt to any of them?

Mr. PATTERSON. No, sir.

Senator COUZENS. So you did not borrow any to pay that $11,000 interest on your contract?

Mr. PATTERSON. No, sir; I did not.

Senator COUZENS. Is the contract canceled now?

Mr. PATTERSON. No; it is not.

Senator COUZENS. Is it still an obligation you have?

Mr. PATTERSON. The receiver of the Guardian Holding Co. holds it as an asset. I presume it is still in force.

Senator COUZENS. You do not feel that you are going to be able to carry out the contract?

Mr. PATTERSON. I don't think so.

Mr. PECORA. Let me read to you the following general remarks made by Examiner Hopkins while he was national bank examiner of the condition of the National Bank of Commerce as of October 6, 1931:

> Large balances: Including public funds, the records show that $43,500,000 is carried in 54 accounts. The largest of these is the Ford Motor Co., which has a balance of $25,420,000, others ranging from $7,000,000 down.

This fact might appear to constitute a dangerous situation. However, the management maintains that all of them are extremely close to the bank and that in event of a run on the bank by its depositors these particular depositors would in no manner afford any trouble. If this be true, the extreme quick liability of the bank's assets would be sufficient to pay off all of the other depositors.

"Liquidity" is probably what was meant. The word in the report is "liability".

The fact remains, however, that the Ford Motor Co. account is rather erratic at times, and frequently the bank finds it difficult to borrow funds for a few days' duration. The management has agreed to strengthen the liquid position.

Under the caption of "Earnings":

The earnings have not been all they might have been desired, because of the low interest return on so large a portion of the assets. Every economy possible is being maintained in order to show greater earnings. The large amount of interest paid on deposits is having its effect on the net earnings.

And under the caption of "Guardian Detroit Union Group" appears this:

All of the stock of this bank except the directors' qualifying shares is owned by the Guardian Detroit Union Group. A list of the affiliations is shown on page 11A. Considerable weakness is known to exist in several of the affiliated banks. The Group has apparently failed in contributing policies which tend to clean up these affiliated banks, and charge-offs are made reluctantly. Apparently the Group management has been unable to inject policies which were originally planned into the various units, and the local management operates almost in the same manner as they did prior to their acquisition.

The stock of the Group has continuously declined from a high point of $310 to $20 since 1929. At the time of this examination the stock was priced at the market of $23. The market is rather inactive, and efforts to stabilize it at higher prices have been unsuccessful. A large portion of the losses resulting to this bank has come from the policy of riding along on those loans which were secured by this stock, and for the reason that foreclosing out of such loans would create a feeling of hostility among those customers who had paid excessive prices in the beginning. Undoubtedly, all of the units hold substantial amounts of this stock in their collateral files.

In view of these facts, the stock has lost its liquidity, since any suggestion of forced sales would run the market to very low figures. This situation should be closely watched.

Mr. Covington, the vice president of this bank, stated to me that he would undertake to create a pool from the directorate of the group banks with sufficient contributed funds to furnish relief to this bank and at the same time maintain the market on the stock.

The CHAIRMAN. What bank is that?

Mr. PECORA. This is the National Bank of Commerce, one of the unit banks which was at the end of this year, 1931, consolidated with the Guardian National Bank.

Senator COUZENS. Was what Mr. Covington promised carried out, Mr. Patterson?

Mr. PATTERSON. I believe so, yes.

Mr. PECORA. Under the caption of "Losses" the following appears in this report of Mr. Hopkins while he was the national bank examiner:

The losses shown in the report by no means represent the actual losses set up at the time of the discussion, and other estimated losses of approximately $1,000,000 could have been set up. The examiner accepts the responsibility for this action, inasmuch as the bank has so recently reduced its surplus fund to the sum of 2½ million dollars and met the recommendations of the examiner in the matter of charge-offs at the time of the previous examination. To further reduce the surplus fund at this time would undoubtedly create undesirable comment in this city and might prove disastrous.

The bank is unquestionably solvent. The condition found here is not altogether desirable, and a strong letter should be addressed to the board of directors touching on the matters contained herein. If not inconsistent with the policies of your office, the matter of holding shares of the Guardian Detroit Union Group as collateral to loans should be brought to their attention.

Are you familiar with those remarks in this report?

Mr. PECORA. Was this matter ever brought to the attention of the board so far as you know? I am referring to the matter of holding shares of the Guardian Detroit Union Group as collateral to loans.

Mr. PATTERSON. I think Mr. Hopkins may have called it to the attention of the executive committee of the bank.

Mr. PECORA. Do you know what action was taken on it?

Mr. PATTERSON. No, sir; I do not.

Senator COUZENS. What is Mr. Hopkins doing now?

Mr. PATTERSON. Mr. Hopkins is employed by the Federal Deposit Insurance Corporation.

Senator COUZENS. Where?

Mr. PATTERSON. At Lansing.

Senator COUZENS. Michigan?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Now, following the consolidation of the National Bank of Commerce with the Guardian National Bank, Mr. Lord, who had been president of the Guardian National Bank prior to the consolidation, continued as president of the consolidated institution, did he not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Are you familiar with the report made on the examination of the bank by the national examiner as of May 16, 1932?

Mr. PATTERSON. I don't believe I ever saw that report, Mr. Pecora. That was the examination by Examiner Walker?

Mr. PECORA. By Examiner Walker, yes.

Mr. PATTERSON. I never saw that.

Mr. PECORA. Do you know why you did not see it? Do you know any reason why you did not see it?

Mr. PATTERSON. I think the officers merely kept it.

Mr. PECORA. What were you doing about exercising the main function that I understood from your testimony this morning had been delegated to you as executive bank president of the Group of attending to the examination of these banks and keeping the Group posted as to their condition from time to time?

Mr. PATTERSON. Mr. Lord was president of the bank, and I presume he saw the report, and Mr. Covington also, and I did not think it was necessary for any Group officer to go any further than that.

Mr. PECORA. Were they kept from you for any reason?

Mr. PATTERSON. No; I don't believe they were kept from me for any particular purpose.

Mr. PECORA. Let me read the following statements under the caption of "General remarks" from the report of the bank, the Guardian National Bank of Commerce, as of May 16, 1932, under the caption of "Losses":

The losses listed at this time are only a nominal amount in comparison with the actually existing losses irrespective of further substantial doubtful items. In extended meeting with the bank's executive committee, at which meeting Chief Examiner Leyburn and your examiner was present, it was agreed that

losses of roughly $1,200,000 were to be charged off at this time. The committee felt that to charge off an amount in excess of this figure when conditions are in their present demoralized condition would only add fuel to the flames and would do more harm than good by impairing the surplus fund in any way.

And under the caption of "management" let me read these remarks in the report:

The management of the bank has rested in the hands of President Lord, who is not the strong, dominant type that the bank is so much in need of today. He is believed to be more or less heavily involved and probably insolvent, though he is not borrowing of the bank and does not furnish a statement. In this condition himself, he is hardly qualified to pass intelligently upon credits, for your examiner has noticed that when a loaning officer is himself in bad financial condition he does not view credits in the same light that he would were he in good financial condition himself. His attitude is more one of riding along to see what is going to happen next, rather than to face the facts and to figure out corrective measures immediately.

Under the caption of overhead charges I will read to you as follows from the report:

Salaries have been reduced 10 percent, which is not enough in proportion to earnings, but there are many officers and employees who are owing substantial amounts to the bank who cannot meet their interest payments unless the bank pays them enough to do so. In other words, then, the bank is actually paying the interest for the employee, for in numerous instances other capable men could be employed at materially less money than is being paid now, and the bank would be receiving just as much value for materially less money.

Were you familiar with that condition at that time?

Mr. PATTERSON. Yes. I never heard the report before.

Mr. PECORA. That was the condition, was it not?

Mr. PATTERSON. Approximately that; yes, sir.

Mr. PECORA. The bank could not let go these officers who owed it money for fear that the bank would thereby not be able to collect even the interest on the loans?

Mr. PATTERSON. Well, the remarks of the examiner in my opinion are a little too general. I do not think that would apply to every officer in the bank.

Mr. PECORA. He does not say that it applies to every officer. He said "There are many officers and employees." That is correct, isn't it?

Mr. PATTERSON. Well, yes; I would say that it is.

Mr. PECORA. Now let me read this portion of the report under the caption of "Real Estate Mortgages Under Foreclosure:"

Detroit has probably been as hard hit as any large industrial city in the United States, for prosperity of this town is of course contingent upon the automobile industry. Forty percent of the bank's capital is now invested in the other real estate account, and with mortgages going into foreclosure every day, the next examination will doubtless reflect a very material increase in this undesirable account.

Are you familiar with the fact that as much as 40 percent of the bank's capital was invested in real estate mortgages?

Mr. PATTERSON. I do not remember just what the figures are. It occurs to me at the moment that the examiner is somewhat overdrawing the picture there, Mr. Pecora. The capital of the bank was $10,000,000, as I recall. Forty percent of that would be approximately $4,000,000, and it does not seem to me that $4,000,000 of the real estate mortgages were in foreclosure. Now I may be wrong, but I just don't recall that amount.

Mr. Pecora. Well, as a matter of fact, according to the report of the condition of the bank as of May 16, 1932, the bank actually had loaned $4,085,015.71 on "other real estate." That is other real estate than that owned by the bank.

Mr. Patterson. Well, I had forgotten.

Mr. Pecora. Now let me read the following statement from this report of condition or examination as of May 16, 1932, under the caption of "Guardian Detroit Union stock held as collateral":

> A list of the loans which this bank is carrying on this stock is incorporated in this report, and it is not surprising that there are many of these loans which are short on collateral by large amounts, when we stop to reflect that the stock sold for over $350 a share and is now quoted nominally at $5.50, though no material amount of the stock could be liquidated at even this figure.

You know that at that time the bank actually carried 149,574 shares of the Group stock as collateral for loans?

Mr. Patterson. Yes; that sounds about right.

Mr. Pecora. Which represented an increase of nearly 100,000 shares over the number of shares carried as collateral on loans as of March 2, 1931?

Mr. Patterson. I imagine, however, that increase is due to the consolidation of the banks that occurred on December 31, 1931.

Mr. Pecora. Was that increase also due to the fact that the bank continued to loan on that kind of collateral?

Mr. Patterson. I would say not.

Mr. Pecora. Are you sure of that?

Mr. Patterson. I am quite sure of it; yes, sir.

Mr. Pecora. Had the practice prevailed in the Guardian National Bank prior to the consolidation with the Guardian Detroit Bank of making loans secured by the stock of the Group or holding company?

Mr. Patterson. With very few exceptions, and certainly not after approximately the middle of 1930

Mr. Pecora. Under the caption of "Large balances" let me read to you as follows from this report as of May 16, 1932:

> Over 30 percent of the bank's deposits are in 11 accounts, as shown in the confidential section of this report. While some of these deposits might prove a source of strength, that is, the Ford balances might remain and even be built up somewhat in case of an emergency, there are other balances which probably would not prove to be as friendly. There are so many angles to this situation, and most of which are weaknesses, that this institution could find itself in even more serious difficulties if some one of its affiliated banks or itself should be subjected to a heavy run. On the other hand, the names of Edsel Ford, Charles S. Mott, and some others, lend material strength to the picture.

Are you familiar with the situation reflected in that portion of the report?

Mr. Patterson. You are referring to the amount of deposits in a few accounts? Yes, sir; I am.

Mr. Pecora. I am referring to what I have read from the report.

Mr. Patterson. It is the first time I have heard the report, but I am familiar with the condition that he is talking about.

Mr. Pecora. Now let me read from this report the following statement made by the examiner as an answer to the form question reading:

> What person or persons, if any, in your opinion, dominate the policies of the bank, and to what extent?

The answer is as follows:

There seems to be friction existing between President Lord and Executive Vice President Covington.

Were you familiar with that situation?

Mr. PATTERSON. I don't believe there was any friction between the two men, Mr. Pecora.

Mr. PECORA. In answer to this form question:

If control is owned by individual or affiliated interests, give particulars as to how maintained and the amount of stock owned or controlled.

The answer of the examiner is:

All shares except directors' qualifying shares stand in the name of Guardian Detroit Union Group.

That was true; wasn't it?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Now let me read the examiner's answer to this question:

Are the directors men of independent judgment and familiar with the affairs, or are they dependent upon active officers or directors and leave the management to them?

The answer is as follows:

Men of independent judgment who as a rule, judging from the attendance record, leave the bank's operations largely in the hands of the active officers.

Do you think that is a fair statement?

Mr. PATTERSON. Yes; I do.

Mr. PECORA. In answer to the question in the printed form of the report reading:

Do you consider the bank absolutely solvent, both in having collectable assets sufficient to pay depositors and other creditors and its ability to meet maturing and the usual demands in the ordinary course?

The answer to that is, "See remarks", and these are the remarks embodied in the report:

Aside from the many serious criticisms listed on page 11, the most serious of all is the fact that not only is there practically no justified earnings which the parent corporation can acquire in the form of dividends from its various affiliated banks, but the Detroit Union Group has liabilities of about $14,500,000, which together with the expense of operation of around $130,000 a year, makes it encumbent upon the company to derive revenue of around $850 000 to meet interest charges and expenses. In other words, in the ordinary unit bank the double liability feature is a source of some strength as a rule, whereas here we have not only no strength from the principal stockholder, the Guardian Detroit Union Group, but in addition the parent company must derive, as stated above, some $850,000 a year to keep its own head above water.

From this angle it will be readily seen that the situation is a serious one, and I would not care to hazard a guess as to the future of this bank and the others in the group, few if any of which could keep their doors open if this bank found it impossible to carry on.

Senator COUZENS. What date was that?

Mr. PECORA. This is as of May 16, 1932.

Senator COUZENS. Is that the copy of the report sent to the Comptroller?

Mr. PECORA. Yes, sir. This is a report made by Mr. Harry W Walker, field examiner, which is signed by the chief examiner.

Would you say that those remarks were based upon the existing facts?

Mr. PATTERSON. I think the examiner has drawn a picture just about as I see it.

Mr. PECORA. In other words, he was fairly accurate?

Mr. PATTERSON. I think he was.

Mr. PECORA. Do you know when the Guardian National Bank of Commerce declared its first dividened in the year 1932?

Mr. PATTERSON. No, Mr. Pecora; I do not recall.

Mr. PECORA. Do you recall that the National Bank of Commerce declared a dividend amounting to $200,000 for the first quarter of the year 1932?

Mr. PATTERSON. Yes; I think I do.

Mr. PECORA. Do you know the circumstances under which that dividend was declared?

Mr. PATTERSON. Well, it was for the purpose of paying a dividend on the Group stock, together with dividends received from other units of the Group.

Mr. PECORA. Was it done in order to help the group out?

Mr. PATTERSON. I do not think so. You mean, to pay interest?

Mr. PECORA. In order to help the group out by putting it in possession of funds with which to meet its own obligations?

Mr. PATTERSON. No. My recollection is that it was paid to group stockholders as a dividend. Those funds which you spoke of, $200,000, together with other funds from the other units of the group, were used to pay a dividend.

Mr. PECORA. Do you recall the last dividend that was declared and paid by the group on its stock?

Mr. PATTERSON. I think it was the first quarter of 1932.

Mr. PECORA. It then paid a dividend amounting to $386,022 for that first quarter of the year 1932?

Mr. PATTERSON. That is about 25 cents a share.

Mr. PECORA. Yes; exactly 25 cents a share. Of that dividend of $386,000-odd, $200,000 was obtained from a dividend of that amount paid by the Guardian National Bank of Commerce, was it not?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you know the circumstances under which the Guardian National Bank of Commerce declared that dividend for the first quarter of 1932?

Mr. PATTERSON. I do not know what you mean by "circumstances." Their profit account probably was sufficient for them to declare that amount into the group company.

Mr. PECORA. Why do you say that the profit account was probably sufficient?

Mr. PATTERSON. Well, I do not know what the figures are now.

Mr. PECORA. Have you any consciousness or recollection of the fact that the condition of the bank in its earnings did not justify the payment of such a dividend by the bank?

Mr. PATTERSON. No, I do not. My recollection is that they did have sufficient earnings to pay that dividend.

Mr. PECORA. Do you know whether or not the dividend was actually paid out of current earnings or was it paid in part out of earnings and in part out of surplus funds?

Mr. PATTERSON. I cannot remember the figures now.

Mr. Pecora. You know that the national bank examiner in his report of the condition of the Guardian National Bank of Commerce on May 16, 1932, stated that the dividend which was declared for the first quarter of 1932 was illegal?

Mr. Patterson. No; I did not know that he stated that.

Mr. Pecora. And that the reason it was illegal was because there was not a quorum of the board of directors in attendance?

Mr. Patterson. No; I did not know that, Mr. Pecora.

Mr. Pecora. Did you know that in his report of condition as of May 16, 1932, the national bank examiner stated that the condition of the assets of the bank did not warrant the declaration of any dividend at the end of the current dividend period, which would be for the second quarter?

Mr. Patterson. No; I did not know that it was in the report.

Mr. Pecora. Apparently the bank did not declare a dividend for the second quarter of 1932. Do you recall that fact?

Mr. Patterson. Yes, sir.

Mr. Pecora. Did it declare a dividend at any subsequent time during the year 1932?

Mr. Patterson. I have not the dividend record here; I could not say.

Mr. Pecora. Well, according to the dividend record which I have, the bank declared a dividend for the final quarter amounting to $150,000. Do you know whether the payment or the declaration of that dividend was justified by the earnings and by all the other circumstances of the bank?

Mr. Patterson. I would say that it was justified at the time. It seems to me that there were earnings sufficient then to declare that amount.

Mr. Pecora. Were you a member of the board of this bank?

Mr. Patterson. No, sir.

Mr. Pecora. But as the executive vice president of the group whose special function it was to inquire from time to time into the condition of the bank units of the group, did you not know the condition of the bank?

Mr. Patterson. Approximately; not intimately.

Mr. Pecora. According to the report of the National Bank Examiner, who in this instance was Mr. W. A. Reagan, on the condition of the Guardian National Bank of Commerce as of November 9, 1932, he then reported slow loans aggregating $5,388,682.52, doubtful loans $18,692,876.22, and loss of $546,942.07. Does that accord with your recollection of the condition of the bank?

Mr. Patterson. I do not remember ever seeing Mr. Reagan's report. I believe that that report was not delivered to the bank until some time after the 1st of January, although I am a little bit hazy on that point, and by that time we were working very hard at other matters.

Mr. Pecora. Did you know that the doubtful loans alone, independently of the slow loans, that were reported by the National Bank Examiner as of November 9, 1932, actually exceeded the entire capital funds of the bank at that time, which aggregated $17,945,433.93?

Mr. Patterson. Yes; apparently they did.

Senator Couzens. Did you know it at that time?

Mr. Patterson. No, sir.

Mr. Pecora. Do you think that under those circumstances any dividend should have been declared for the final quarter of the year 1932?

Mr. Patterson. In view of the necessity to take care of some of the indebtedness of the Group Corporation, I would say, yes.

Mr. Pecora. Of the Group Corporation?

Mr. Patterson. Yes.

Mr. Pecora. Then the interests of depositors were being sacrificed to take care of the interests of the stockholders of the group?

Mr. Patterson. No.

Mr. Pecora. Is not that so?

Mr. Patterson. No.

Mr. Pecora. Does not that necessarily follow from the answer you have given?

Mr. Patterson. No; I believe not.

Mr. Pecora. Have you not said in words here or in substance, just now, that you justify the declaration of the dividend because of the necessity for taking care of the group?

Mr. Patterson. The declaration of a dividend by the Guardian National Bank of Commerce would come out of the profit account of that bank, and the assets were to take care of the depositors' interests, and they have, pretty largely, so far.

Mr. Pecora. Are not the depositors' interests supposed to be protected also by the capital funds of the bank?

Mr. Patterson. That is true; but $150,000 would not——

Mr. Pecora. Would not pay them in full, of course. We know that.

Mr. Patterson. Would not jeopardize the depositors' interests.

Mr. Pecora. It would to that extent, would it not?

Mr. Patterson. Yes.

Mr. Pecora. It would jeopardize them to the amount of dollars and cents involved in the dividend.

Mr. Patterson. That is right.

Mr. Pecora. Do you think, under those circumstances, that the officers did their full duty to the depositors in declaring that dividend, with the bank in that condition?

Mr. Patterson. Viewing it strictly as a bank operation, you are right.

Mr. Pecora. Do you know why the dividend was declared by the bank?

Mr. Patterson. Only, as I said before, it was used to pay some of the current indebtedness of the Group Corporation.

Mr. Pecora. What interest did the depositors of the bank have in taking care of the Group Corporation?

Mr. Patterson. Well, the Group Corporation was the stockholder of bank stock, and, I believe, had a right to declare earnings out of that bank.

Mr. Pecora. Even though the earnings of the bank itself, considering the bank as a separate entity, were not sufficient to make the declaration of a dividend advisable?

Mr. Patterson. I do not believe there was any legal objection to declaring dividends, even though the profit account is used or some of the surplus.

Mr. PECORA. I am not talking about a legal objection; I am talking about the practical consideration of principles of sound banking.

Mr. PATTERSON. As a practical consideration it was wrong.

Mr. PECORA. It was wrong?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Do you know at whose instance this wrong thing was done?

Mr. PATTERSON. No, sir; I do not.

Mr. PECORA. Can't you guess?

Mr. PATTERSON. I suppose it was the directors of the bank who declared the dividend

Mr. PECORA. Do you think the directors of the bank did it upon their own initiative, or do you think they acted in response to a suggestion, if you please, from the group?

Mr. PATTERSON. I don't know, sir.

Mr. PECORA. Do you know anybody that would know that?

Mr. PATTERSON. I presume Mr. Lord could tell you.

Mr. PECORA. Mr. Lord told us, when he was on the stand that suggestions only were made to the unit banks by the group on the subject of declaration of dividends. You heard that testimony, did you not, week before last?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Didn't it appear to you that those suggestions were regarded as commands?

Mr. PATTERSON. Oh, no, sir; not at all.

Mr. PECORA. They were not regarded as commands by those officers of the bank who, when they first received the suggestion, reported back that the earnings of their bank did not justify the declaration of the dividend suggested by the group?

Mr. PATTERSON. No, sir; and I can positively state that so far as any apparent domination is concerned, that did not exist in my experience with the Guardian Group.

Mr. PECORA. And you say that, despite the documentary as well as oral evidence that was introduced week before last before this committee?

Mr. PATTERSON. I am speaking in a perfectly practical manner, now, about day-to-day operations; and any suggestion——

Mr. PECORA. I am not talking about day-to-day operations; I am talking about operations based upon general policy.

Mr. PATTERSON. I do not believe there was any domination by the group officers of any of the units.

Mr. PECORA. Was it customary when you were chief national bank examiner for you to notify a bank that it was to be examined and the date when the examination would commence?

Mr. PATTERSON. No, sir.

Mr. PECORA. As a matter of fact, do you know whether or not any of the officers, either of the group or of the unit banks of the group, received at any time any information concerning the time of the examination of any one of those banks or that an examination was to be made by the national bank examiners?

Mr. PATTERSON. Yes; I know of one instance.

Mr. PECORA. When was that instance?

Mr. PATTERSON. I believe it was Examiner Walker's examination of the Guardian Bank in May of 1932, when he and one of his assist-

ants came to me and made preliminary arrangements to conduct an examination. The bank was quite a large one, Mr. Pecora——

Mr. PECORA. Which bank are you referring to?

Mr. PATTERSON. The Guardian National Bank of Commerce, of Detroit, Mich. The bank had 28 branches, and part of its operations were conducted in what we call the Union Guardian Trust Building, and a part of its operations were conducted in the Penobscot Building. It was his first examination of the bank, and he came to see me to learn what the physical layout of the institution was, to determine where the branches were located, where the loans and discounts were handled, and with regard to the large office in the Boulevard District, in the General Motors Building.

Mr. PECORA. Is that the only instance that you recall?

Mr. PATTERSON. I do not remember any other. I believe we participated with the national bank examiners—I am referring now to the examiners of the Group corporation—I believe we participated with the national bank examiners in an examination of the Grand Rapids National Bank at one time.

Mr. PECORA. Under what circumstances was that done?

Mr. PATTERSON. After the national bank examiners had taken charge of the bank for examination we were notified and sent men over there to participate with them rather than to discommode the bank with two examinations.

Mr. PECORA. Do you recall receiving a letter dated December 17, 1931, from Mr. Leyburn, then chief national bank examiner, a photostatic copy of which I now show you?

Mr. PATTERSON. Yes; I recall this letter.

Mr. PECORA. That was another instance, was it not, where you received notice in advance that an examination was going to be made of the bank on a certain date?

Mr. PATTERSON. Yes, apparently; although it does not state that an examination is to be made.

Mr. PECORA. What does it state? Suppose you read the letter, yourself, into the record while you have it before you.

Mr. PATTERSON. It is addressed to me. [Reading:]

> Hopkins will be in Detroit Saturday morning with Norsen and McLean to line the work up and start it off. He will have to be away Monday and then he will return and he will have some more help.

Mr. PECORA. What did you think these examiners were coming there for?

Mr. PATTERSON. I would think now it was for the purpose of some examination; but I do not just recall what this particular instance was.

Mr. PECORA. Will you look at this document which I now show you and which purports to be a photostatic reproduction of an intra-Group memorandum addressed by you to Messrs. Lord, Kanzler, Covington, and Walsh, under date of December 18, 1931, and tell me if you recognize it to be a correct copy of such a memorandum prepared and sent by you to the gentlemen to whom it is addressed?

Mr. PATTERSON. Yes; I recall it.

Mr. PECORA. I want to offer that memorandum in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of memorandum dated Dec. 18, 1931, addressed by Mr. Patterson to Messrs. Lord, Kanzler, Covington, and

Walsh, was received in evidence, marked "Committee Exhibit No. 57, Jan. 3, 1934.")

Mr. PECORA. The memorandum in question that has just been received in evidence as Committee Exhibit No. 57 is on the letterhead of the Guardian Detroit Union Group, Inc., an Intra-Group memorandum to Messrs. Lord, Kanzler, Covington, and Walsh from B. K. Patterson, dated December 18, 1931, and reading as follows [reading]:

> You are advised that the chief national bank examiner informs me, under date of December 17, that National Bank Examiner Hopkins and two assistants will be in Detroit Saturday a.m., December 19, for the purpose of beginning the work of the examination of the Guardian Detroit Bank. Mr. Hopkins cannot be here on Monday, December 21, but will leave his assistants here to continue the work of examination, and Mr. Hopkins is to return on Tuesday to finish the job.

What were you going to say about it?

Mr. PATTERSON. I was going to say this, that arrangements had been made for a consolidation of the National Bank of Commerce and the Guardian Detroit Bank, the latter being a State bank, and we had made arrangements with the Comptroller's office and had requested, in fact, that an examination of the Guardian Detroit Bank be made, and I had contacted Mr. Leyburn to ascertain when the examiner and his crew of men would be over to the State bank, the Guardian Detroit Bank, for that purpose. We had ordered the examination ourselves incident to the consolidation of the two banks.

The CHAIRMAN. Which bank was it that you said had 28 branches?

Mr. PATTERSON. The National Bank of Commerce.

The CHAIRMAN. They were all in Detroit?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. Did you know with reference to the dividend that was declared for the last quarter of 1932 by the Guardian National Bank of Commerce that in his report on the bank as of November 9, 1932, the national bank examiner said, in answer to the question, "State reason, if any, why bank should not declare a dividend at the end of current dividend period", as follows:

> Statutory bad debts, doubtful assets and bond depreciation prohibit.

Did you know that?

Mr. PATTERSON. No, sir; I have never seen that report, Mr. Pecora.

Mr. PECORA. Let me read to you from the report of the National Bank Examiner as of November 9, 1932, on the condition of the Guardian National Bank of Commerce, as follows: [reading]:

> At the present time a cooperative spirit toward the Department is evident throughout this bank and their credit department and loan information is far above the average. Also asset values are frankly discussed with the Department's representatives. This same spirit is not reflected in the Group by President Lord. It is believed that Vice President Covington of the bank should be given full credit for the attitude in the bank, the improved condition of its loans, and its very material improvement in its liquidity which is now 40.5 or better on an average. However, in considering its liquidity full consideration should be given to the vulnerable position of the bank as reflected in the attached list. The real-estate situation in the bank is serious, and at the present time it is very difficult to determine values of any Detroit property. It is felt that eventually substantial losses will develop in some of these assets. The concentration in collateral of Guardian Detroit Union Group and Detroit Bankers Co. stocks is outrageous, and little if any value is given to either of these stocks by the examiner. Some time ago the Detroit banks took over the American State Bank to avert closing, and proportionately guaranteed the First National Bank, the absorbing

bank, against loss. This bank's share is 18 percent. The reserve fund upon the books of the bank has unquestionably lost $1,600,000, and an arbitrary default classification of an additional $1,500,000 is estimated at this examination, although even this figure is believed to be a generous classification.

Much depends in this institution on how much confidence the public will continue to place in the connection of Edsel Ford and C. S. Mott with this bank and whether they will continue to assist. This will depend upon the trend of business at the present time.

Under the caption of "General Remarks" let me read the following from this report as of November 9, 1932 [reading]:

The condition of this bank is very unsatisfactory, and the stock ownership by the Guardian Detroit Union Group adds nothing to strengthen the picture. The Group has heavy debts of its own, approximately $14,000,000, and it is necessary for them to find ways and means to liquidate some of their own debts and have no funds nor assets with which to assist the member banks. The Group assets consist almost entirely of bank stocks which are not productive of dividends. It was frankly stated that the Group were very much interested in national legislation in hopes that state-wide branch banking will be legalized and in that way rearrange their capital structure in such a way as to provide substantially for elimination of losses in their member banks. Just how far its capital structure will go toward the accomplishment of this end is a problem, but it should only be permitted to be done under the direct supervision of the Department. The losses of this bank as estimated at this examination are nominal as compared with the very questionable assets that it was desired to eliminate, and it was felt that in view of impending legislation it would be the most desirable thing from the Department's viewpoint to postpone such classification until some future time when the possibility of using a portion of the Group's capital structure can be determined.

Under the circumstances reflected by this report, do you think the declaration of a dividend for the final quarter of 1932 by this bank was advisable or justifiable?

Mr. Patterson. No, sir.

Mr. Pecora. In the light of the condition of the bank as disclosed by these reports of the national bank examiners throughout the year 1931 and the year 1932, do you agree with the opinion expressed here by Mr. Lord before this committee week before last, that this bank should not have been closed when it was closed, in February 1933?

Mr. Patterson. Yes, sir; I do.

Mr. Pecora. You do?

Mr. Patterson. Yes, sir.

Mr. Pecora. Do you disagree with the report of the national bank examiners that I have read to you this afternoon?

Mr. Patterson. I think that their classifications were pretty drastic at that time, throughout 1931 and 1932.

The Chairman. What do you mean by "classifications"?

Mr. Patterson. I mean the classification of its assets, as to slow and doubtful, or loss. I think that that is borne out pretty much by what has happened since the bank has been in the hands of a receiver, and what is very likely to happen in the final liquidation of the bank.

The Chairman. In other words, you think the bank was solvent when it was closed?

Mr. Patterson. I think it was; yes, sir.

Mr. Pecora. And that despite the fact that doubtful loans, the item of doubtful loans alone, as of November 9, 1932, exceeded in amount the entire capital funds of the bank?

Mr. PATTERSON. That classification was made at the very lowest point in all price history, almost, of this country; and in addition to that I still say that the classifications were quite drastic. I think that bank could have been saved.

Mr. PECORA. What report had your own examiners made to you for the year 1932 concerning this bank?

Mr. PATTERSON. We had not been able to get into the bank in the year 1932 with our own examiners.

Mr. PECORA. Why not?

Mr. PATTERSON. Because in the spring of that year, in March, it became necessary to economize more and more in the Group Corporation, and all the examiners attached to the Group Corporation were assigned to other duties, and practically no examination work was done during that year by the Group Corporation.

Mr. PECORA. This bank was one of the most important units in the group, was it not?

Mr. PATTERSON. That is true.

Mr. PECORA. Why were you not able to obtain a report from your own examiners of the condition of the bank for the entire year 1932?

Mr. PATTERSON. I just said, Mr. Pecora, that in the interests of economy we had detached all the examiners from the Group Corporation and assigned them to other duties, and all examination work on the part of the group was discontinued approximately the 1st of March 1932.

Mr. PECORA. Then how were you informed as to the condition of the bank in 1932?

Mr. PATTERSON. Only by contact with the officers of the bank.

Mr. PECORA. That contact, or that information, did not consist of any information you got from any of the national bank reports for that year, because you have acknowledged this afternoon that you are learning of the contents of these reports for the first time this afternoon.

Mr. PATTERSON. Yes.

Mr. PECORA. It did not consist, either, of any information you got from examinations made by your own men, did it?

Mr. PATTERSON. No, sir.

The CHAIRMAN. In other words, you had not made any classifications of your own?

Mr. PATTERSON. No, sir.

The CHAIRMAN. You were not in a position to criticize?

Mr. PATTERSON. We had not made any examinations during 1932.

Mr. PECORA. Was not that the time when, in view of existing conditions, it seemed most imperative to you that such examinations be made?

Mr. PATTERSON. Yes, sir.

Mr. PECORA. And in the interests of economy those examinations were not made?

Mr. PATTERSON. Apparently.

Mr. PECORA. Well, actually?

Mr. PATTERSON. Actually; yes, sir.

Mr. PECORA. Mr. Chairman, that completes this phase of the examination.

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But, Mr. Chairman, I think this letter, which was read, in part at least, into the record by Mr. Patterson, should be marked as an exhibit.

The CHAIRMAN. Let it be appropriately marked.

(Thereupon the letter dated Jan. 10, 1929, from Mr. Proctor to National Bank Examiner Moon, was marked "Committee Exhibit No. 58," and will be found at the end of the day's proceedings.)

The CHAIRMAN. The committee stands adjourned until 10 o'clock tomorrow morning.

Mr. PECORA. Witnesses now in attendance will be here at that time.

(Whereupon, at 4:30 p.m. Wednesday, Jan. 3, 1934, an adjournment was taken until tomorrow, Thursday, Jan. 4, 1934, at 10:30 a.m.)

COMMITTEE EXHIBIT NO. 58 JANUARY 3, 1934

TREASURY DEPARTMENT,
January 10, 1929.

Mr. EARL W. MOON,
National Bank Examiner,
164 West Jackson Blv'd., Room 1203, Chicago, Illinois.

DEAR SIR: Your letter of January 4, is received, requesting an answer to your letter of December 19.

You state that the officers, directors, and stockholders interested in the Union Trust Company, the Griswold-First State Bank, and the National Bank of Commerce, all of Detroit, Michigan, have organized a corporation known as the Union Commerce Investment Company; that this corporation is in reality a holding company for the stock of these three institutions; that the assets of the Union Commerce Investment Company consist of the total capital stock of these three institutions except the directors' qualifying shares, and request to be advised whether the National Bank of Commerce may lawfully, and without criticism, hold stock of the Union Commerce Investment Company as collateral to loans.

The stock of the corporation referred to is not capital stock of the bank within the meaning of Section 5201, U. S. R. S., even though a part of its assets consist of stock of the bank. The matter of accepting stock of the company as collateral to a loan is one for the determination of the management of the bank, although this office does not look with favor on loans secured by stock of a company so closely allied to the bank and having little or no assets other than stock in banks, national and state.

Your letter of December 19 was inadvertently placed in the files before being answered.

Respectfully,

JOHN S. PROCTOR,
Deputy Comptroller.

STOCK EXCHANGE PRACTICES

THURSDAY, JANUARY 4, 1934

United States Senate,
Subcommittee of the Committee on
Banking and Currency,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on yesterday, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Adams (proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee, Julius Silver and David Saperstein, associate counsel to the committee, and Frank J. Meehan, chief statistician to the committee.

The Chairman. The subcommittee will come to order. You may proceed, Mr. Pecora.

Senator Couzens. Who will you have first this morning, Mr. Pecora?

Mr. Pecora. Colonel Walsh.

Mr. Lord. Mr. Pecora, Colonel Walsh is confined to his bed at the hotel, under the care of a physician and a nurse.

Mr. Pecora. Is he quite sick?

Mr. Lord. Yes, he is quite sick.

The Chairman. Then who will you have first, Mr. Pecora?

Mr. Pecora. I will recall Mr. Lord.

TESTIMONY OF ROBERT O. LORD—Resumed

Mr. Pecora. Mr. Lord——

Mr. Lord (interposing). Mr. Pecora, before you begin your examination of me may I make a statement?

Mr. Pecora. Yes.

Mr. Lord. During the session of this committee held on Friday, reference was made to certain annual statements for the years 1929, 1930, 1931, and 1932.

Mr. Pecora. What Friday do you refer to?

Mr. Lord. Friday, December 22.

Mr. Pecora. All right.

Mr. Lord. In regard to the Guardian Detroit Union Group, Inc., statements submitted to the Securities Commission of the State of Michigan, photostatic copies of which statements submitted here, were apparently made from office copies taken from the office of the Group, which office copies made it appear that they were not properly acknowledged before a notary public as required by law. In addition, the photostatic copy from the office copy of a report of

one of the years made it appear that the record had been actually signed by others than myself and Mr. Haberkorn, respectively, president and secretary of the corporation. I have secured and am handing to this committee photostatic copies of the originals of those four reports filed with the Michigan Securities Commission, which show clearly that the originals, as required by law to be filed with the Michigan Securities Commission, at Lansing, were complete as to signatures, acknowledgment, and were in proper form. Furthermore, those reports were at all times open to public inspection.

Now, the two reports which were referred to—and I should like, first, to turn these photostatic copies of the reports over to you, Mr. Pecora, so that you may have correct copies of them here, for the 4 years 1929, 1930, 1931, and 1932.

The two reports which were compared—that is, the Annual Report to stockholders and the report of the Group Corporation individually—are not comparable at all. The annual report to the stockholders is a consolidated report for the year's business of all the units that make up the group, including the Group Co. itself. While the report to the Michigan Securities Commission is the report of the holding company alone, which, under the requirements of the Michigan Securities Commission, does not and cannot reflect the earnings or losses of the units of the Group or of their condition.

The earnings of the holding company come chiefly from dividends from the units. If the holding company alone paid out more than it received in dividends or other income, it would naturally show a deficit. That, however, would not mean a loss on the year's business of the units making up the Group. It would merely mean a deficit for the holding company alone and not of the Group as a whole.

Now, as perhaps further clarifying these Michigan Securities Commission reports, I should like to read the statement of Fred Guider, the examiner of the Michigan Securities Commission, which statement appeared in a Detroit newspaper of Sunday, December 31, 1933, and which I think is quite clear. This article reads as follows:

Mr. Pecora (interposing). What article are you now referring to and proposing to read?

Mr. Lord. An article from the Detroit News of December 31, 1933, and which contains a statement made by Mr. Guider, which statement I think will probably clarify better than I can just what these commission reports mean.

Mr. Pecora. Well, we do not have to take our evidence from a newspaper story. That is not legal evidence.

Mr. Lord. This is a statement made by Mr. Guider as examiner for the Michigan Securities Commission, and seems to me has a bearing on these reports.

Mr. Pecora. If you want any views of Mr. Guider submitted to this committee let Mr. Guider come here and submit to an examination about such views.

The Chairman. I scarcely think any newspaper account of what Mr. Guider may have said would be proper testimony. We may disagree entirely with that statement and are entitled to examine him and have the matter clarified.

Mr. Lord. It is not merely a question of commenting on the reports. He is simply commenting on what the reports to the Securities Commission are.

The CHAIRMAN. But you do not know whether he reported right or not.

Mr. LORD. Whether he reported right?

The CHAIRMAN. Yes.

Mr. LORD. He is employed by the Michigan Securities Commission.

Mr. PECORA. The reports to the Securities Commission speak for themselves, and they are in evidence here. They will tell what they are better than anybody else can. Here they are, and have been made a part of the record of this committee.

Mr. LORD. It seems to me, however, that Mr. Guider's comments on those reports are quite pertinent to this inquiry.

Senator COUZENS. I think the committee would have no objection to Mr. Guider coming down here and testifying if he wishes to do so. But we can hardly take a newspaper account of his comments.

Mr. LORD. I have no doubt that Mr. Guider would testify to the same effect that he has written in regard to these commission reports.

Senator COUZENS. I think it is the committee's rule not to take any evidence unless the person himself comes and gives it. That is the rule we have followed right along, not to take any newspaper items as evidence.

The CHAIRMAN. I scarcely think a newspaper account of what was said would be proper evidence here. However, probably that is not very material anyhow. We know what the reports are, and we know what the law required. Is there anything else you wish to say along that line, Mr. Lord?

Mr. LORD. No, I thank you.

The CHAIRMAN. Do you offer these photostatic copies of the originals?

Mr. LORD. Yes, sir; I do.

Mr. PECORA. The annual reports made by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission for the calendar years 1929, 1930, 1931, and 1932, respectively, have been been presented by the witness. I ask that they may be marked in evidence in the order in which I have designated them.

The CHAIRMAN. Let them be received.

Senator COUZENS. We are not making them a part of the record, but are simply marking them in evidence.

Mr. PECORA. Yes; I just ask that they may be marked in evidence. As I understand it, the only purpose Mr. Lord has in presenting these photostatic copies is to show that the originals were duly signed and acknowledged.

Senator COUZENS. Then these photostatic copies will be marked as exhibits and held for the purposes of the committee.

Mr. PECORA. Yes.

The CHAIRMAN. Let them be admitted as exhibits and filed.

(A photostatic copy of a report made for the year 1929 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 59, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1930 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 60, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1931 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 61, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1932 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 62, Jan. 4, 1934", and will be retained in the committee's files.)

Mr. Pecora. Mr. Lord, have you a copy of the statement that you read into the record a few minutes ago?

Mr. Lord. No. I have only my own notes that I used.

Mr. Pecora. You read from some manuscript, did you not?

Mr. Lord. I have some piecemeal notes of my own.

Mr. Pecora. Well, may I just have them for my guidance in examining you about them? I want to have the exact text of your statement before me.

Mr. Lord. All right [handing to Mr. Pecora a paper].

Mr. Pecora. Now, I am interested particularly in this portion of the statement which you read into the record and which I will repeat to you:

> The two reports are not comparable at all. The annual report to the stockholders is the consolidated report of the year's business of the units that make up the group, including the Group Co. itself. The report to the securities commission is the report of the holding company alone, which, under the requirements of the Michigan Securities Commission, does not and cannot reflect the earnings or losses of the units of the group or their condition. The earnings of the holding company come chiefly from dividends from the units. If the holding company alone paid out more than it received in dividends or other income, it would naturally show a deficit. That, however, would not mean a loss on the year's business of the units making up the group. It would merely mean a deficit for the holding company alone.

Now, Mr. Lord, in making that statement, the two reports to which you refer as not being comparable at all were the reports respectively made by the Group Corporation to its stockholders embodied in its printed annual report, and the report made by the Group Corporation to the Michigan Securities Commission, were they not?

Mr. Lord. Yes, sir.

Mr. Pecora. Now, why do you say that the two reports are not comparable at all?

Mr. Lord. Because in the one case, the annual report to stockholders was a report of operations of the entire group including its units. On the other hand, the report to the securities commission was a report of the Group Corporation as such and did not include the operations of the units that constituted the assets of the Group Corporation.

Senator Couzens. Mr. Lord, is that a correct statement in view of the testimony we have heretofore had in respect of the annual reports to stockholders—that is, not including the many affiliates that are units of the group?

Mr. Lord. Senator Couzens, I do not understand your question. Will you kindly repeat it?

Senator Couzens. As I remember the prior testimony it was to the effect that your annual report to stockholders did include the operating results of the many affiliates?

Mr. LORD. The annual report to the stockholders did include that as I understand.

Senator COUZENS. Of the various affiliates?

Mr. LORD. Yes, sir; as I understand them.

Senator COUZENS. I did not recall that those reports included all of the affiliates.

Mr. PECORA. It only includes the banking units that were members of the group.

Mr. LORD. Which report are you now referring to?

Mr. PECORA. The annual report to the stockholders of the group.

Mr. LORD. For 1929?

Mr. PECORA. Yes; or any of the years reported.

Mr. LORD. A report of earnings and operations as included in the annual reports covered the operations of all the units, including the Group Corporation itself, according to my understanding. And I think that is correct.

Mr. PECORA. Does it show earnings or deficits, whichever it may be, that the group as a whole earned or suffered, as the case might be?

Mr. LORD. Do you mean the Group Corporation?

Mr. PECORA. Yes; in its annual report to its stockholders.

Mr. LORD. My understanding is that it does.

Mr. PECORA. Will you point out in the printed annual report of the group to its stockholders for the year 1929 where that may be found?

Mr. LORD. The results of operations during 1929 according to my understanding included the operations of all the units, and the operations of the Group Corporation itself.

Mr. PECORA. Point out from the printed report of the group to its stockholders for the year 1929 any statement which tells the stockholder what the earnings of the group as a whole were for the year, if any, or what the deficit of the group as a whole was for the year, if any.

Mr. LORD. Mr. Pecora, this statement says:

> The results of operations of the above unit institutions of Guardian Detroit Union Group, Inc., for the year ending December 31, 1929, were satisfactory—

And then it lists them below. I admit that it does not state that the operations of the Group Corporation as such are included, but they were included.

Senator COUZENS. On what page is that, please?

Mr. LORD. On page 8 of the printed annual report for 1929.

Mr. Pecora. The annual report to which you have referred says:

> The results of operations of the above unit institutions of Guardian Detroit Union Group, Inc., for the year ending December 31, 1929, were satisfactory in spite of the difficult condition which confronted every banking institution during the last 10 weeks of the calendar year.

Mr. LORD. Yes, sir. And it then follows with the aggregate gross earnings of the units of the Group, stating that they amounted to $41,847,489.21. And it says:

> From which all expenses (including taxes of all kinds, and depreciation of buildings and equipment) were paid to the amount of $32,435,031.08.

Then it says:

> Leaving net earnings from operations (after writing off all known losses) in the amount of $9,412,458.13.

Then it says:

> Or at the rate of 30.58 percent on outstanding capital stock of 1,538,801 shares of $20 par value.

Then it says:

> Of this amount, there was set aside reserves for unforeseen contingencies in the amount of $1,704,732.73.

Then it says:

> Leaving available for dividends $7,707,725.40, or at the rate of 25.04 percent on outstanding capital stock of 1,538,801 shares of $20 par value.

Then it says:

> Of this amount there was paid out in dividends during the year by the group or by the member banks prior to affiliation with the group $4,246,359.04.

And then follows:

> Leaving for additions to surplus or undivided profits $3,461,366.36.

If you will look at that corporation report made to the Michigan Securities Commission you will find for the year 1929 that the Group Corporation did not incur any deficit, that its expenses equalled its income.

When you come to the 1930 report you will find a deficit of the Group Corporation, as stated, was $39,387.57. And the expenses of the Group Corporation according to our auditors were included in the earnings' statement of 1930.

Mr. PECORA. On what page?

Mr. LORD. On page 9.

Mr. PECORA. Now, the annual report filed with the Michigan Securities Commission for the year 1930 by the Guardian Detroit Union Group, Inc., shows that the group as a whole incurred a deficit for that year of $39,387.57, does it not?

Mr. LORD. Yes, sir; I believe so.

Mr. PECORA. Will you point out in the statement embodied in the printed annual report to stockholders for the year 1930, which was published and issued by the Guardian Detroit Union Group, Inc., which also states or which reflects the fact that the group as a whole for the year 1930 operated at a deficit of $39,387.57, or operated under any deficit whatsoever.

Mr. LORD. Mr. Pecora, the Group Co. as such did not make a separate statement because it would not have been the true picture of the group as a whole. The 1930 statement, however, showing the combined operating earnings and expenses of the various units of the group, include the expenses of the Group Corporation. It includes that deficit of $39,387.57.

Mr. PECORA. Where do you see it in the report?

Mr. LORD. It is not specifically mentioned, but——

Mr. PECORA (interposing). Well, where is it mentioned at all, either specifically or generally?

Mr. LORD. It is included in these figures.

Mr. PECORA. Where?

Mr. LORD. In these operating figures, that deficit is included.

Mr. PECORA. Will you take the figures shown on page 9 of the printed report to stockholders of the group for the year 1930—have you a copy there?

Mr. LORD. I have it here.

Mr. PECORA. And give us the calculation from which anyone could deduce from it that the group as a whole that year operated at a loss or a deficit of $39,387.57.

Mr. LORD. Mr. Pecora, the group did not operate at a loss. The Group Corporation as such incurred a deficit after dividends and after paying its own expenses, of $39,387.57.

Mr. PECORA. Well, I am talking about the group, or the company called Guardian Detroit Union Group, Inc. That is a holding company, isn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, that company, which for the sake of convenience I will refer to as the group, in its annual report filed with the Michigan Securities Commission showed that it operated at a loss, or incurred a loss of $39,387.57 for the year 1930, did it not?

Mr. LORD. It incurred a deficit after dividends. This report includes the operating earnings and the operating expenses of every corporation in the group, including the Group Corporation itself.

Mr. PECORA. Well, show me in the printed report to the stockholders issued by the group or holding company, any statement which indicates that the group incurred a deficit for the year 1930.

Mr. LORD. Mr. Pecora, that particular statement is not made, but the statement shows that the combined operating earnings and expenses of the various units of the group were as follows—and then the group Corporation itself was included in those earnings.

Mr. PECORA. Well, show me any figures or any set or grouping of figures in this annual report to stockholders, from which any reading thereof could inform the reader that the holding company, otherwise referred to as the group, incurred a deficit of over $39,000, or incurred any deficit whatsoever in the year 1930.

Mr. LORD. There is no such statement in there, because it was our best judgment—and I have conferred with Haskins & Sells to find out if our judgment was wrong as to the fair and proper method of reporting the operations of the group.

Mr. PECORA. Did Haskins & Sells advise you to make this kind of report to your stockholders?

Mr. LORD. They did not. My conference with Haskins & Sells was last week, to see if we had presented a proper report.

Mr. PECORA. And did they advise you that you had presented the facts properly to the stockholders of the group?

Mr. LORD. They did, sir.

Mr. PECORA. And did they base that advice upon an examination of the annual reports issued to the stockholders by the group for the years 1929, 1930, and 1931?

Mr. LORD. They did, sir.

Mr. PECORA. Which particular member or members of the firm of Haskins & Sells gave you that information?

Mr. LORD. Mr. Bontron, the partner in Detroit.

Mr. PECORA. Why did you consult him last week on this subject?

Mr. LORD. To see if my judgment was correct as to the presentation of those figures.

Mr. PECORA. Then it was on your judgment that these annual reports to stockholders were prepared and issued?

Mr. LORD. To some extent, and on the judgment of the committee. These reports went out on the order of the executive committee.

Senator TOWNSEND. Who were the members of the executive committee?

Mr. LORD. There were different members at different times. They are stated in here. The executive committee of the Group Corporation in 1930 were: Henry E. Bodman, chairman; Frank W. Blair; Harry C. Bulkley; C. H. Haberkorn, Jr.; Carlton M. Higbee; Sherwin A. Hill; Ernest Kanzler; Robert O. Lord; Charles S. Mott; Fred T. Murphy; Edwin H. Nelson; Phelps Newberry; Murray W. Sales; Henry H. Sanger; John N. Stalker; and James L. Walsh.

Mr. PECORA. Now, Mr. Lord, will you be good enough to tell us, in view of the fact that you consulted those accountants last week in order to find out if your judgment with regard to the preparation and issuance of these annual reports to stockholders was correct, why in issuing the annual reports to stockholders the reports were worded and presented in a fashion which concealed from the stockholders the fact that the company incurred a deficit in each of those operating years?

Mr. LORD. Mr. Pecora, there was no intention of concealing it from the stockholders.

Mr. PECORA. Well, tell us why it was done, whether there was any such intention or not. Tell us why reports were prepared in a fashion to withhold that information from the stockholders.

Mr. LORD. The reports were prepared in a fashion that, in our opinion, presented the full facts to the stockholders of the Group, and the facts in which they were interested.

Mr. PECORA. Well, the fact that the company operated under a deficit would be a fact in which any stockholder would be interested, wouldn't he?

Mr. LORD. I would not think so, no.

Mr. PECORA. You say you would not think so?

Mr. LORD. No. Because they are interested in the assets of the corporation, and the earnings of the corporation.

Mr. PECORA. Do you mean to say he is not interested in whether or not the corporation incurred a deficit in its year's business?

Mr. LORD. Not as such; no, I shouldn't think so.

Mr. PECORA. Have you always guided yourself in your business transactions in corporate matters by that opinion or principle that a stockholder is not interested in the fact whether or not his company operated at a deficit?

Mr. LORD. Mr. Pecora, I have been guided in my business transactions by telling the stockholder all information, and presenting it in the way I thought it gave him all the facts. Now, this may illustrate what might happen: If you had published an earnings picture of the Group Corporation itself, let us assume for the sake of the argument that out of undivided profits account rather than out of current earnings of the units, you had paid, we will also say for the sake of the argument only, $6,000,000 in dividends to the Group Corporation. Assume, then, that you encroach, in paying those dividends upon the undivided profits account of the separate units. Then assume that the Group Corporation had paid out the $6,000,000, and received as

dividends $3,000,000, and show an excess of income over dividends of $3,000,000. Had you presented that statement to the stockholders in the face of paying out of undivided-profits account rather than current earnings of the units, it would have been absolutely a misrepresentation of the situation. Now, we have shown in these reports the income accounts for the various units, and we have included in operating expenses in the combined figures, the operating expenses of the Group Corporation. I do not know of any fairer way, any fuller way, to present the proper picture of the Group Corporation and of its units than that. Now, that may be an accounting matter that somebody might differ about, but Mr. Bontron felt and told us that the presentation in this report was absolutely the way this matter should be handled.

Mr. Pecora. I should like to have Mr. Bontron, or whatever his name is, to come down here and tell this committee under oath what you say he told you.

Mr. Lord. Very well. Oh! It was Price, Waterhouse & Co. and not Haskins & Sells.

Mr. Pecora. It was a man representing Price, Waterhouse & Co.?

Mr. Lord. Yes, sir.

Mr. Pecora. Well, my desire stands to have that gentleman come here and tell this committee what you say he told you.

Mr. Lord. Very well.

Mr. Pecora. Now, in this printed annual report to the stockholders of the Group for the year 1930, the opening statement reads as follows:

> To the stockholders of Guardian Detroit Union Group, Inc.:
> During the past year the banks and trust companies affiliated in the Guardian Detroit Union Group have conducted their operations along most conservative lines, stressing safety and liquidity rather than profits.

Is that a correct statement of the facts, Mr. Lord, as you know the facts?

Mr. Lord. I think it is, sir.

Mr. Pecora. In view of that statement of yours, isn't the fact to your knowledge that during the year 1930 many of the bank and trust company units of the Group paid dividends that were not justified by current earnings?

Mr. Lord. I do not think so.

Mr. Pecora. Isn't it the fact that many of those banking units of the Group during that year paid dividends partly out of capital funds as well as out of earnings?

Mr. Lord. What do you mean by "capital funds?"

Mr. Pecora. The surplus and undivided profits. You know what I mean by capital funds.

Mr. Lord. Not to my knowledge, Mr. Pecora. I haven't the individual figures here, but I can get them for you.

Mr. Pecora. Well, just check up on that, please.

Mr. Lord. All right. (Witness leaves the table and goes to his papers for additional records.) I have here the operating earnings of the units for 1930 and the dividends paid. Shall I read them separately?

Mr. Pecora. Yes.

Mr. LORD. I might say here, while looking at this figure, that I see the Union Guardian Trust Co. paid for 1930 $62,000 from its undivided profits account.

Mr. PECORA. From its undivided-profits account?

Mr. LORD. Yes, sir.

Mr. PECORA. And not from earnings?

Mr. LORD. And the balance from current earnings. Now, taking the units: The Guardian National Bank of Commerce, which is set up to include both the Guardian Detroit Bank and the National Bank of Commerce, which had not been consolidated, but these figures are put together; in 1930 the earnings were $2,337,205.90, and the dividends paid were $1,761,782.

Mr. PECORA. How much was paid out of undivided profits or surplus account?

Mr. LORD. In their case they had an excess of earnings over dividends of four hundred and odd thousand dollars.

Mr. PECORA. Well, were any reserves set up against losses that year out of those earnings?

Mr. LORD. There were some charge-offs made probably from the reserve account.

Mr. PECORA. Made out of the earnings for the year?

Mr. LORD. You cannot follow them separately. Earnings go into undivided profits, and where you set up reserves, customarily you charge the undivided profits account with the reserves. In other words, it is a matter of two steps. Current earnings go into undivided profits. Undivided profits are charged to create reserves or take care of whatever charge-offs there are.

Mr. PECORA. Can you give the committee the amount of the charge-offs or reserves set up by that bank for the year 1930?

Mr. LORD. The net amount charged off was five hundred twenty and odd thousand dollars.

Mr. PECORA. Yes.

Mr. LORD. Those charge-offs may have come from reserves already created, or may have come from the undivided profits account.

Mr. PECORA. From undivided profits account as swelled by current earnings?

Mr. LORD. Yes, sir; because earnings go into the undivided profits account.

Mr. PECORA. In the first statement of the earnings of that bank for the year 1930, then the amount of set-up for reserves against losses or contingencies, this amount of charge-offs or write-offs appears and this amount of dividends declared.

Mr. LORD. Yes, sir.

Mr. PECORA. Now, give us those four figures for that year.

Mr. LORD. The earnings were $2,337,205.94. Now, what was the next figure you desired?

Mr. PECORA. The amount set up as a reserve against losses.

Mr. LORD. The statement is not handled in that way. It shows the net charge-offs. Do you want that figure?

Mr. PECORA. Well, give it as you show it there.

Mr. LORD. It is $520,678.35.

Mr. PECORA. Yes.

Mr. LORD. And dividends paid $1,761,800.

Mr. PECORA. Now, in the earnings figure of $2,337,205.94 does that represent gross earnings or earnings after expenses?

Mr. LORD. That is after expenses. The gross earnings were twenty-seven million, six hundred and ninety-five thousand——

Mr. PECORA (interposing). Oh, no. You do not mean 27 million dollars, do you?

Mr. LORD. No. That figure I gave you up there represented the net earnings after operating expenses and reserves for depreciation in the matter of furniture, fixtures, and so on.

Mr. PECORA. That means net earnings after operating expenses and taxes?

Mr. LORD. Yes, sir.

Mr. PECORA. And the net charge-offs amounted to $520,628.35?

Mr. LORD. Yes, sir.

Mr. PECORA. That does not include anything set up for reserves, does it?

Mr. LORD. It does not show any set-up for reserves in these statements.

Mr. PECORA. Were there any reserves set up for that year by that bank?

Mr. LORD. I cannot tell you from these figures.

Mr. PECORA. Well, you know that it was the policy of the group not to have unit banks set up reserves, don't you?

Mr. LORD. No, sir; I do not.

Mr. PECORA. Don't you know that that fact was adverted to repeatedly by the national-bank examiners in their reports made from time to time of the unit banks? Hasn't that fact been shown in evidence here?

Mr. LORD. No. I have never seen that.

Mr. PECORA. You have not?

Mr. LORD. No, sir. The statements themselves show reserves, so how could that be the policy?

Mr. PECORA. Well, it was the policy to set up as small an amount for reserves as possible, wasn't it?

Mr. LORD. No, that is not a fair statement, or at least I don't think so.

Mr. PECORA. Well, now, let us take, for instance, the evidence before this committee, which included Committee Exhibit No. 8, December 19, 1933, consisting of an intra-group memorandum, sent to you by Mr. John N. Stalker, who was then the president of the Union Guardian Trust Co., one of the banking units of the group, and which is dated June 26, 1930, and in which he said as follows:

MY DEAR BOB: I commented in a recent letter on the matter of the dividends which should be paid by the Union Guardian Trust Co. the latter half of this year. The loss of our bond department affects our earnings very seriously. For the 5 years from 1925 to 1929, inclusive, the net earnings of that department after the payment of expenses average a trifle over $296,000 a year. If we had those earnings today, I believe we could pay a 20-percent dividend or $1, 000, 000 a year. We do not in any way question the transfer of the bond department to the Guardian Detroit Co. This seems to us logical and proper. The effect on our earning capacity, however, cannot be ignored.

As against $500,000 in dividends which we are paying the first 6 months of this year, our earnings will probably not run over $425,000, and this without setting up any reserves at all. Our policy in the past has always been to set up liberal reserves, although we were fortunate enough to need them only to a very limited extent. At the present time we feel that reserves are rather urgently required, and find ourselves unable to provide them.

Now, doesn't that letter indicate what the policy of the group was with respect to setting up reserves?

Mr. LORD. I do not think so, Mr. Pecora.

Mr. PECORA. What does that letter indicate to you, then?

Mr. LORD. It indicates to me that Mr. Stalker felt that dividend was larger than it should be under the circumstances, and in view of the fact that they, in that institution at that time, were not setting up any reserves.

Mr. PECORA. And they were not setting up reserves because the Group did not want the bank to set up reserves, isn't that so?

Mr. LORD. No; I do not think so.

Mr. PECORA. Well, doesn't that appear from the testimony given here by Mr. Stalker, as well as the documentary evidence introduced while he was on the stand, as well as while you were on the stand week before last?

Mr. LORD. I think Mr. Stalker went into the details, or at least as I recollect his testimony, as to the expectation of increased earnings for the latter half of the year, and as to an expectation of economies through the consolidation which had been made and just completed, of the Guardian Trust Co. and the Union Trust Co. And the dividend, which as I recall it that the Union Guardian Trust Co. declared at that time, was at a lower rate than the combined rates of the institutions.

Mr. PECORA. And the earnings were much lower than they had been in previous years, and the dividends were declared at a rate that Mr. Stalker himself pointed out to you were not justified by current earnings. Do you recall that testimony given by Mr. Stalker?

Mr. LORD. I recall that Mr. Stalker felt that that particular dividend was larger than should be paid at the time.

Mr. PECORA. And nevertheless that dividend, larger than should have been declared, was declared because the group asked that it be declared.

Mr. LORD. No; because it was recommended to the board by him and others, and the board of the Union Guardian Trust Co. declared that dividend.

Mr. PECORA. Recommended by you, or requested by you, and recommended by the board, including Mr. Stalker.

Mr. LORD. Well, now——

Mr. PECORA (interposing). Well, that is a fact, as has been stated here.

Mr. LORD. Yes, sir; I believe so.

Mr. PECORA. And Mr. Stalker recommended that dividend after he had first pointed out to you the unwisdom of a dividend at the rate which the group has asked be declared.

Mr. LORD. Yes, but he recommended that dividend because he must have felt that it was justified.

Mr. PECORA. How can you say that in view of Mr. Stalker's own letters to you, in which he proceeded to state the situation, and deferred to the rate suggested by you only in deference to the suggestions of the group?

Mr. LORD. Well, why should he have recommended it to the board if he did not favor it?

Mr. PECORA. Well, do you want me to answer that question? If so, I will say it was because he was under the domination of the group and its officers, if you want me to answer it.

Mr. LORD. No.

Mr. PECORA. And because his position as president depended upon his retaining the good will of the group, which owned the stock of his bank. And let me point out to you, on page 12 of the printed annual report of the Group Co. to its stockholders for the year 1930, the following statement:

> In the case of the Guardian Detroit Co. a special inventory reserve of $4,500,000 has been made by the transfer of $2,900,000 from capital account and $1,600,000 from undivided profits.

Now, in this instance the Guardian Detroit Co. depleted its capital resources to the extent of 4½ million dollars in order to set up this reserve, didn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, how many banking units of the group for the year 1930 depleted their capital resources in order to set up reserves or in order to take care of write-offs or charge-offs?

Mr. LORD. Well, I can give you the totals. Do you want them individually?

Mr. PECORA. I should like to have them individually, with a mention of the facts.

Mr. LORD. All right.

Senator GOLDSBOROUGH. Mr. Pecora, how many institutions constituted this group? Were there 22 or 23 banks, and how many affiliates?

Mr. PECORA. I think there were 27 units all told. Is that right, Mr. Lord?

Mr. LORD. No; I think there were more than that. Right at the time spoken of, including all the affiliates. But they were either being liquidated or consolidated.

Mr. PECORA. Well, out of the units of the group, 20 of them were banking units, weren't they?

Mr. LORD. I think 21 at the time.

Senator ADAMS. Mr. Lord, you are using the term "depletion of capital resources." Is this really a depletion or is it a recognition of an existing depletion?

Mr. LORD. It was a recognition of the existing values of the securities.

Senator ADAMS. This was a matter, rather, of bookkeeping entries, which did not change the condition existing?

Mr. LORD. Those were merely taken out. I can give you from these figures the capital funds and the reserves as of December 31, 1929, and as of December 31, 1930.

Mr. PECORA. All right.

Mr. LORD. Which I think will give the information you want.

Mr. PECORA. All right.

Mr. LORD. Under the Guardian National Bank of Commerce as of December 31, 1929——

Mr. PECORA (interposing). Well, the Guardian National Bank of Commerce was not in existence on December 31, 1929, was it?

Mr. LORD. Well, they have lumped all these figures for the three banks that afterward made up the Guardian Detroit National Bank

of Commerce. By the end of 1930 I think the Bank of Detroit and the Guardian Detroit Bank had consolidated.

The figure as of December 31, 1929, was $27,695,914.97. At the time of the consolidation of the Bank of Detroit with the Guardian Detroit Bank, the Bank of Detroit paid into the Group in the form of Government securities 2½ million dollars in the form of a liquidating dividend. Taking that item out, there is a reduction in the capital structure to $25,229,365.35. If you add that item back, it shows that the combined capital structure, plus the liquidating dividend which went to the group, is a little in excess of the capital funds as of December 31, 1929.

In the case of the Union Guardian Trust Co. as of December 31, 1929, the figure is $16,100,722.15. During 1930 the Union Guardian Trust Co. declared to the Group Corporation as a liquidating dividend the capital stock of the Union Building Co., which stood on the books at 5 million dollars. That leaves the capital funds as of December 31, 1930, at $11,025,952.04.

Mr. Pecora. Why did that bank do that?

Mr. Lord. Because it would result in a very substantial saving in the matter of taxes. In the State of Michigan bank stock is taxed on its amount. And in addition the Trust Co. was paying taxes on the real estate. In other words, there was a duplication of taxes. You are taxed on your building and real estate as real estate, and the Union Guardian Trust Co. was also taxed on its capital.

Mr. Pecora. What was the value of the real estate at the time of the transfer to the group?

Mr. Lord. Well, the stock stood on the books at 5 million dollars. The Corporation owned this Union Guardian Building, which had cost between 11 and 12 million dollars.

Senator Goldsborough. And the statute of Michigan does not permit the reduction of real estate from bank stock?

Mr. Lord. Not to the full extent. I think it saved us between $50,000 and $60,000 in the matter of taxes. Furthermore, we found that by operating it as a separate unit and not as owned by the Trust Co., was very much more satisfactory from the standpoint of the operation of the building.

Continuing these figures as to capital structure: In the case of the Highland Park State Bank, on December 31, 1929, it had a capital structure of $3,488,594.87, and on December 31, 1930, it was $3,547,-203.82, an increase of approximately $59,000.

In the case of the Highland Park Trust Co., the capital structure on December 31, 1929, was $825,562.36, and at the end of the year 1930 it was $878,815,83, an increase of approximately $53,000.

In the case of the Union Industrial Trust & Savings Bank, of Flint, the capital structure on December 31, 1929, was $3,765,420.29, and at the end of 1930 it was $3,941,141.37, or an increase of approximately $170,000.

In the case of the Grand Rapids National Bank, the capital structure as of December 31, 1929, was $1,925,660.75, and at the end of 1930 it was $1,743,919.30, or a decrease of about $180,000.

In the case of the Grand Rapids Trust Co, the capital structure as of December 31, 1929, was $1,624,106.30, and at the end of the year 1930 it was $1,595,932.48.

In the case of the Union & Peoples National Bank, of Jackson, as of December 31, 1929, its capital structure was $1,563,166.36, and at the end of the year 1930 it was $1,632,968.37, an increase of approximately $69,000.

In the case of the Second National Bank & Trust Co. of Saginaw, its capital structure as of December 31, 1929, was $3,187,985.08, and at the end of the year 1930 it was $3,274,978.07.

In the case of the First National Trust & Savings Bank of Port Huron, its capital structure as of December 31, 1929, was $1,406,-605.20, and at the end of the year 1930 it was $1,458,181.64.

In the case of the Capital National Bank of Lansing, its capital structure as of December 31, 1929, was $1,693,578.11, and at the end of the year 1930 it was $1,797,443.46.

In the case of the First National Bank & Trust Co. of Kalamazoo, its capital structure on December 31, 1929, was $1,188,277.15, and at the end of the year 1930 it was $1,246,468.96.

In the case of the City National Bank & Trust Co. of Battle Creek, as of December 31, 1929, its capital structure was $1,357,542.27, and at the end of the year 1930 it was $1,393,219.52.

In the case of the Guardian Bank of Dearborn, its capital structure as of December 31, 1929, was $979,162.49 and at the end of the year 1930 it was $985,635.02.

In the case of the Michigan Industrial Bank of Detroit, its capital structure as of December 31, 1929, was $694,871.66, and at the end of the year 1930 it was $706,923.97.

In the case of the National Bank of Ionia, its capital structure as of December 31, 1929, was $318,161.28, and at the end of the year 1930 it was $338,896.07.

In the case of the City National Bank & Trust Co. of Niles, its capital structure as of December 31, 1929, was $311,497.35, and at the end of the year 1930 it was $318,985.02.

In the case of the Guardian Bank of Trenton, its capital structure as of December 31, 1929, was $92,006.78, and at the end of the year 1930 it was $92,496.92.

In the case of the Guardian Bank of Grosse Pointe, its capital structure as of December 31, 1929, was $135,023.94, and at the end of the year 1930 it was $142,701.77.

In the case of the Bank of Hamtramck, its capital structure as of December 31, 1929, was $248,775.57, and at the end of the year 1930 it was $227,919.34.

The Chairman. What does all that tend to show?

Mr. Lord. Mr. Pecora asked for the capital structure at the beginning of 1930 and at the end of 1930, of these various institutions.

Mr. Pecora. Is it not a fact that at the end of 1931 the capital structure of nearly all of these banks you have just alluded to had become reduced still further than they had been between the beginning and the end of the year 1930?

Mr. Lord. Yes, sir.

Mr. Pecora. And also between the beginning of 1932 and the end of 1932 those capital structures in many instances were still further reduced; is not that so?

Mr. Lord. Yes, sir.

Mr. Pecora. Are you able to tell the committee, for the years 1930, 1931, and 1932, respectively, the banks which were units of the

group which, in paying dividends for those years, had to dip into their capital funds?

Mr. LORD. Which years, Mr. Pecora?

Mr. PECORA. 1930, 1931, and 1932. Take them for each year, separately, if you will.

Mr. LORD. There are two ways of answering that question; that is, to make it clear to you. In the first place, charge-offs were set up for reserves. Reserves are usually taken out of undivided profits and charge-offs are made direct out of the reserve accounts. If you consider charge-offs out of reserves made out of current performance rather than out of previous reserves, that is one thing; or if you want me to show the earnings and the dividends, that is, the operating earnings and the dividends, I can answer it in that way and show what institutions encroached upon their undivided profit accounts to pay dividends during those years.

Mr. PECORA. Well, do it the second way.

Mr. LORD. We will take 1930. The Union Guardian Trust Co. in 1930 encroached upon its undivided profit account in the payment of dividends to the extent of about $62,000.

Mr. PECORA. How much?

Mr. LORD. About $62,000. The Grand Rapids National Bank, to the extent of $73,000 odd. The Grand Rapids Trust Co., to the extent of $5,900, about. Those are the only institutions in 1930 that encroached upon their undivided profit accounts for the payment of dividends.

Mr. PECORA. How many of the other banking units of the group, during that year, out of undivided profits or surplus, set up reserves or made write-offs or charge-offs?

Mr. LORD. They all made some charge-offs. They show figures of net charge-offs.

Mr. PECORA. In how many instances in the year 1930, as among the banking units of the group, were dividends paid by the bank where the amount of the dividends paid, plus reserves and charge-offs, exceeded the amount of net earnings?

Mr. LORD. Do you want them separately named?

Mr. PECORA. Yes.

Mr. LORD. The Guardian National, or the combination of those banks——

Mr. PECORA. You had better take the banks as they existed at that time.

Mr. LORD. I had not the separate figures at that time. The Guardian National did not show a deficit after charge-off. The Trust Co. did. The Highland Park State Bank did not. The Highland Park Trust Co. did not. The Union Industrial Trust and Savings Bank did not, or the Grand Rapids National. The Grand Rapids Trust Co. did. The United States and Peoples National Bank at Lansing did. The Second National Bank & Trust Co. of Saginaw did not. The First National Trust and Savings of Port Huron did not. The Capital National at Lansing did not. The First National Bank of Kalamazoo did not. The City National Bank & Trust Co. of Battle Creek did not. The Guardian Bank of Dearborn did not. The Industrial Bank did not. The National Bank of Ionia did not. The City National Bank & Trust Co. at Niles did not. The Guardian Bank of Trenton did show a deficit after

both charge-offs and dividends. The Guardian Bank at Grosse Pointe did not; and the Bank of Hamtramck did, after its charge-offs.

Mr. PECORA. If I have followed your recital correctly, six of the banks showed deficits after paying dividends, setting up reserves and charge-offs.

Mr. LORD. These charge-offs, Mr. Pecora, may have come from reserves already set up. All I have in this statement here is the net charge-offs which would change the capital structure; and in capital structure I have included capital surplus and reserves.

Mr. PECORA. Will you give us that information for the calendar year 1931?

Mr. LORD. With the exception of the Second National Bank at Saginaw and the Guardian Bank of Trenton, all made charge-offs after dividends which ate into their capital funds in some form.

Mr. PECORA. Which what?

Mr. LORD. Which encroached upon their capital funds.

Mr. PECORA. That is, it really would yield a deficit for that year after declaration and payment of dividends?

Mr. LORD. If you consider the charge-offs made during any year in a bank as applicable to that particular year's operations; yes.

Mr. PECORA. That is an unfair way of looking at it, is it?

Mr. LORD. Yes; I think it is.

Mr. PECORA. For the purpose of declaring dividends is that an unfair thing to take into consideration? Should not dividends, in other words, be declared on the basis of existing condition?

Mr. LORD. No; I do not think so, necessarily, Mr Pecora.

Mr. PECORA. Well, we differ.

Mr. LORD. I would like to comment on that point in this way. I am not going to name these banks, because we do not want to discuss another bank's affairs; but here is a list of some of the leading banks in the United States. Here is a bank—I will name them if you want me to——

Mr. PECORA. No. I am not examining you about the activities or the conduct of banks other than banks of your group.

Mr. LORD. No; but you are asking me on a question of policy.

Mr. PECORA. I am asking you on a question of what was done in your case; that is, in the case of your group and its banking units.

Mr. LORD. I have answered that. We paid dividends at the same time that the charges were made against capital account; and other banks were doing it—some of the finest banks in the country.

Mr. PECORA. And you did it under circumstances which made those dividends, plus the charge-offs, exceed the net earnings?

Mr. LORD. In the current year; yes.

Mr. PECORA. Do you think that is good, sound banking practice?

Mr. LORD. Under the circumstances; yes.

Mr. PECORA. Do you think it was sound banking practice particularly at a time when banks should have conserved all of their resources in the interests of depositors?

Mr. LORD. Under the circumstances; yes. And I believe that the boards and committees, if they had it to do over again, with conditions as they were, would do it the same way, Mr. Pecora.

Mr. PECORA. What were the benefits accruing from that policy?

Mr. LORD. Stabilization of the whole situation.

Mr. Pecora. What do you mean by that? That is rather a mouth-filling phrase, and it is so general that I am not sure that I know its full meaning.

Mr. Lord. The question of public fear, of panic, that prevailed at that time was such that the action taken in regard to dividends was, in our opinion, absolutely wise and the thing to do.

Mr. Pecora. Do you mean it was better to pay dividends rather than to conserve the cash resources of the bank, in order to inspire public confidence in the bank?

Mr. Lord. Infinitely better than not to pay dividends and lose public confidence and have a run on the bank and have the depositors destroy their own institutions.

Mr. Pecora. Were you not virtually trying to pull yourself up by your own bootstraps by that process?

Mr. Lord. No, sir.

Mr. Pecora. Were you not putting off the evil day of reckoning and aggravating it when it should come?

Mr. Lord. No, sir.

Mr. Pecora. Was it not necessary, in your opinion as a banker, for banks to conserve their resources in the interests of the depositors during the period of depression?

Mr. Lord. Not if the payment of dividends was the wise thing to do.

Mr. Pecora. That is begging the question.

Mr. Lord. Not to the extent of breaking down public confidence if there should take place a run on the institution.

Mr. Pecora. What was the sense of building up public confidence upon a false basis?

Mr. Lord. It was not on a false basis.

Mr. Pecora. Was it not on a false basis, in view of the fact that dividends were being paid not because earnings justified them, but in order to maintain public confidence?

Mr. Lord. The operating earnings did justify it.

Mr. Pecora. When you say that operating earnings did justify it, you are excluding from consideration the setting up of reserves and charge-offs or write-offs for losses, are you not?

Mr. Lord. Yes, sir.

Mr. Pecora. Well, that is not fair, is it?

Mr. Lord. Under the circumstances, I believe it is fair.

Mr. Pecora. What circumstances do you refer to?

Mr. Lord. I am talking about the conditions that existed in regard to banks. I would just like to put into this record some of these banks and what they did, to show——

Mr. Pecora. Are you going to refer to your banks or to banks outside of your group?

Mr. Lord. I am going to refer to banks outside of our group, to show that the policy we followed was a sound policy in the opinion of other banks.

Mr. Pecora. If you want to indict the judgment of other bankers, that is one thing——

Mr. Lord. I do not.

Mr. Pecora (continuing). But if you want to indict the judgment of banking executives generally, the information you want to give

the committee would be useful for that purpose and for that purpose only.

Mr. LORD. I do not propose to indict the judgment of other banks. I think they did the wise thing, just as I think we did under the circumstances.

Mr. PECORA. Do you think, in the light of all that has happened, that that judgment was vindicated?

Mr. LORD. Yes, sir.

Mr. PECORA. Are the depositors better off today because that judgment was followed?

Mr. LORD. I think they probably are, because of the liquidation that took place in those banks while the banks were allowed to remain open.

Mr. PECORA. And the amount of cash that otherwise should have been available to pay depositors has been reduced by that policy, has it not?

Mr. LORD. Mr. Pecora——

Mr. PECORA. No. Is it or is it not?

Mr. LORD. It is in some respects; but don't forget that during the years 1930, 1931, and 1932 the Group Co. put back into those banks $8,400,000 in cash.

Senator ADAMS. How does that compare with the amount of dividends taken out in those years?

Mr. LORD. It was more.

Mr. PECORA. What?

Mr. LORD. It was more than was taken out during those years.

Mr. PECORA. Oh, just look at your figures, and I think you will come to a different conclusion about that. During those years the amount of dividends received by the group totaled $9,744,064.09, according to committee's exhibit no. 32 of December 20 last.

Mr. LORD. I was talking about the years 1930, 1931, and 1932.

Mr. PECORA. Well, I am adding the year 1929, which was one of the years.

Mr. LORD. All right. We will take that, of course. The Group Co. then took out $1,300,000 in dividends over four and a fraction years less than they put in. They put in $8,414,000, as I remember the figure.

Mr. PECORA. And took out how much?

Mr. LORD. $9,789,000.

Senator ADAMS. In what way was the money put back?

Mr. LORD. Paying for undesirable or slow assets.

Senator ADAMS. It was not in the shape of a loan?

Mr. LORD. No, sir; they were purchased and the assets lifted out.

Mr. PECORA. And that left the group without assets to meet the claims of depositors of the banking units under its liability as a stockholder of the banks, did it not?

Mr. LORD. No, sir; I would not say that. It left the group with an indebtedness; yes; but the group still had assets in the form of the stock in these banks and a certain amount of cash.

Mr. PECORA. The group had the assets in the form of the capital stock of the banks?

Mr. LORD. The banks which it owned; yes.

Mr. PECORA. So that that was not bringing into the banks for the purpose of making funds avilable to depositors any moneys outside of the capital stock of the bank itself, was it?

Mr. LORD. It certainly brought in $8,400,000 available to the depositors of the bank.

Mr. PECORA. You know that a stockholder of a bank is under a legal liability in favor of the depositors?

Mr. LORD. I do; certainly.

Mr. PECORA. And the stockholder, virtually the sole stockholder of nearly all if not all of the unit banks that composed the group, was the group holding company?

Mr. LORD. Correct.

Mr. PECORA. The only assets that the group holding company had, or its assets in large part, consisted of the capital stock of the unit banks themselves?

Mr. LORD. Yes, sir.

Mr. PECORA. It had virtually no property outside of that?

Mr. LORD. A small amount of cash.

Mr. PECORA. So that the situation thereby created was that with the Group Co., the holding company, as the sole stockholder of the unit banks, the depositors of any of those unit banks could not look, under the liability clause of the law imposed upon bank stockholders, to any independent property which the stockholders owned outside of the capital stock of the banks themselves?

Mr. LORD. That is true to a certain extent; but that did not change, of course, the liability provision in the stock certificate which passed on that liability——

Mr. PECORA. And which is now very much in doubt in the courts?

Mr. LORD. I understand so.

Mr. PECORA. And some of the founders of the group itself who are among the stockholders of the group are setting up in actions now pending in the courts of your State the claim that they are not liable as stockholders of the group to the banks that were units?

Mr. LORD. I understand so; yes.

Senator ADAMS. How much in dividends did the group pay out to its stockholders during those 4 years?

Mr. PECORA. I have that amount here, Senator, as $9,293,639.90.

Senator ADAMS. Substantially the same amount was paid out by the Group as came in in dividends?

Mr. PECORA. There is about a half million dollars difference. The witness said it was paid back to the unit banks. Is not that so, Mr. Lord?

Mr. LORD. They paid back to the unit banks $8,400,000 odd and paid to the stockholders $9,200,000. That makes about $800,000 difference.

The CHAIRMAN. Would it not have better effected public confidence Mr. Lord, to have stated to the public generally that whereas the stockholders were entitled to dividends, they preferred to leave them in the bank and not draw them but let them go to the undivided profits of the bank?

Mr. LORD. That was not the judgment of the board. It is very difficult, Senator Fletcher, for perhaps the members of this committee to realize fully the situation as it particularly was existing in Detroit at that time. We had gone through a very serious situation

beginning in March, 1931, when the American State Bank was about to fail and the Detroit clearing house banks took it over. From then on, all through the years following, covering October 1933, there was a continuous story of bank failures throughout Michigan. I presented the first day here a chart which showed the failures for about a year and 2 or 3 months, and there were 195 bank failures in the State in that period. In addition, we were very seriously affected by withdrawals at the time Chicago had its runs on the downtown banks, and at the time approximately 200 of the Chicago outlying banks failed. In Toledo, which is only 60 miles from Detroit, in the summer of 1931 I think all except one or two banks in Toledo failed. All of that reacted on us so that the public mind was volatile, to say the least.

The CHAIRMAN. I can understand that, and I can see how declaring dividends might give the public the impression that the bank was on a sound basis; but the stockholders, while they were entitled to the dividends, might have left them in the bank and the bank would have had the money available there.

Mr. LORD. That of course is a question of judgment; and it was the judgment of the board and of the committee that the dividends should be paid. You may recall that the dividends were cut down gradually and finally cut off entirely after April 1931.

Senator ADAMS. Mr. Lord, with regard to the eight million-odd dollars that you put back, did the Group have the money available or did it borrow it?

Mr. LORD. It borrowed it.

Senator ADAMS. Where?

Mr. LORD. From New York and Chicago banks.

Senator ADAMS. It did not borrow it from its own banks?

Mr. LORD. No, sir. It borrowed it, if you will recall, Senator, partly on its own credit and partly on the endorsement of Mr. Edsel Ford and Mr. Mott.

Mr. PECORA. The annual report for the year 1931 filed by the group or the holding company with the Michigan Securities Commission, as has already been indicated, showed a deficit for the year of $288,930.33——

Mr. LORD. That deficit, however, Mr. Pecora, includes the carry-over of $39,000 from the previous year. If you will notice——

Mr. PECORA. Yes; I see that.

Mr. LORD. That is the accumulated deficit.

Mr. PECORA. It shows a deficit for that year itself of about $248,-000, does it not?

Mr. LORD. That is correct.

Mr. PECORA. Making allowances for the carry-over of $39,000 of deficit in the preceding year?

Mr. LORD. That is right.

Mr. PECORA. Look at the copy of the printed annual report to the stockholders for the year 1931 issued by the Group and point out to this committee if you can any statement or any information therein contained which informed the stockholders that the Group for the year 1931 had incurred a deficit.

Mr. LORD. There is no direct statement to that effect.

Mr. PECORA. Is there any indirect statement to that effect, or any statement of any kind which so informed the stockholders?

Mr. LORD. I would say so; yes.

Mr. PECORA. Where?

Mr. LORD. The statement on page 7 shows the net earnings of the banks and trust companies of the Group after all expenses of operation and after setting aside adequate reserves for taxes and depreciation, banking quarters and equipment, $3,887,000 plus. That takes only the banks and trust companies. On the next page, in the middle of the page, the total operating loss of institutions other than banks and trust companies amounted to $542,957.68. That loss of $542,957.68 included also a deficit of the Group Corporation for that year.

Mr. PECORA. How can anybody reading this report and even putting emphasis on the portions thereof that you have just read deduce that for the year 1931 the Group or the holding company had a deficit, exclusive of the carry-over of the deficit for the preceding year, of nearly $250,000?

Mr. LORD. It cannot. This was a picture of all of the units, including the Group.

Mr. PECORA. There was no annual report issued to the stockholders of the group for the calendar year 1932, was there?

Mr. LORD. There was not.

Mr. PECORA. Why not? But before you answer that question, which I will withdraw temporarily, let me ask you this: Is it not a fact that the annual report filed by the group for the year 1932 with the Michigan Securities Commission showed that the deficit incurred by the group for the year 1932 was $714,331.26, which included the carry-over of the deficit for the two preceding years, aggregating $288,000?

Mr. LORD. That is correct, sir.

Mr. PECORA. Now I will ask you the question, why wasn't an annual report made of the group for the calendar year 1932?

Mr. LORD. There was a verbal report made to the stockholders by Mr. Kanzler, chairman of the board, at the annual stockholders' meeting held, I believe, on January 28.

Mr. PECORA. Was there any minute anywhere or any document which shows what that verbal report or oral report was?

Mr. LORD. Any stockholders' minutes?

Mr. PECORA. Showing just what the report was that you say was made?

Mr. LORD. I don't know.

Mr. PECORA. What is that?

Mr. LORD. I don't know of any. I know that there had been in course of preparation the document itself. After the meeting of January 28 Mr. Kanzler by appointment left for Washington in connection with the Trust Co. loan from the R.F.C.

Mr. PECORA. I know, but why wasn't an annual report printed and published and given to the stockholders for the year 1932?

Mr. LORD. Because Mr. Kanzler was then in negotiation in connection with the loan from the R.F.C. and expected to include in the annual report a separate statement as to the result of those negotiations.

Mr. PECORA. My dear man, anything done in 1933 should not be contained in the report for 1932, should it?

Mr. LORD. He wanted to bring the stockholders down to date. Upon the conclusion of the——

Mr. PECORA (interposing). An annual report merely embraces the operations for the calendar year for which it is issued, does it not?

Mr. LORD. Yes; but it seems to me——

Mr. PECORA (interposing). Then why wasn't an annual report for the year 1932 issued?

Mr. LORD. I just stated, Mr. Pecora, that Mr. Kanzler left the day after the meeting. So far as the annual report is concerned for 1932, that was in charge of Mr. Huelsman, Mr. Kanzler, and Mr. Waldow, the auditor.

Mr. PECORA. Was it not also in charge of you?

Mr. LORD. No; it was not.

Mr. PECORA. Why wasn't it for the year 1932, although it apparently had been for the preceding years?

Mr. LORD. It was for this reason: The executive committee meeting at which the annual report to be issued was discussed was held on January 20.

The CHAIRMAN. What year?

Mr. LORD. In 1933. And at that time I was spending most of my days and some of my nights at Port Huron, where our competitive bank had failed across the street, trying to save our own institution. I was not at that meeting. I had no activity and no part in the preparation of the annual report for '32 at all.

Mr. PECORA. Now let me ask you to tell this committee how many stockholders actually attended the annual meeting of the Group which was held on January 24, 1933.

Mr. LORD. I would say 30 or 40.

Mr. PECORA. Out of a total of how many stockholders?

Mr. LORD. Eight or nine thousand.

Mr. PECORA. Those 30 or 40 for the most part were men who were either officers or members of the board of the group, were they not?

Mr. LORD. I should say—when I said 30 or 40 I meant outside stockholders besides the officers, Mr. Pecora. I should say there were 50 or 60 there perhaps out of 8 or 9 thousand.

The CHAIRMAN. About how many?

Mr. LORD. Eight or nine thousand stockholders.

Mr. PECORA. Now, let me read to you from photostatic copy which I have of the minutes of the annual meeting of the stockholders of the group held on January 24, 1933, in which it appears——

Mr. LORD (interposing). When was that?

Mr. PECORA. January 24, 1933—in which it appears Mr. Ernest Kanzler presided as chairman of the board. I will read from the minutes as follows [reading]:

> Whereupon the chairman presented the annual report of the corporation for the year ended December 1, 1932, which, upon motion duly seconded and carried by unanimous vote, was approved, and a copy of said report was ordered placed on file with the corporate records of the company and similar copies mailed to all stockholders of record.

Now, where is that report that was placed on file and which according to this motion which was unanimously carried, was ordered mailed to all the stockholders of record?

Mr. LORD. I attended that meeting, and my recollection is that Mr. Kanzler gave a verbal report, reading from some various notes.

There certainly was not at the meeting any printed copy of an annual report to my knowledge.

Mr. PECORA. There was a written copy, was there not?

Mr. LORD. Not to my knowledge. He had a typewritten paper.

Mr. PECORA. Then what does this motion mean?

Mr. LORD. I don't know. I don't know what—I should say that is incorrect, because I remember Mr. Kanzler standing there and reading from various notes that he had in his hand and discussing the situation in regard to the various units.

Mr. PECORA. Well, it is customary for the head of a corporation at the annual stockholders' meeting to present to the stockholders a full report, is it not?

Mr. LORD. He did.

Mr. PECORA. Of the corporation for the preceding year?

Mr. LORD. He did, verbally.

Mr. PECORA. But apparently, according to the minutes of the annual stockholders' meeting of the group held on January 24 last, the report which was presented to the stockholders by the chairman of the board, Mr. Kanzler, was approved "and a copy of said report was ordered placed on file with the corporate records of the company and similar copies mailed to all stockholders of record."

Mr. LORD. Mr. Pecora, I——

Mr. PECORA (interposing). Is that minute of the meeting wrong?

Mr. LORD. I should say the minute is incorrectly worded. There was not, I am certain, at that meeting a printed copy of an annual report.

The CHAIRMAN. Or a written copy, any kind of a copy?

Mr. LORD. As I say, Mr. Kanzler stood there, as I recall it, and he had various notes, sheets, and he took up one subject after another and read it and talked about it verbally.

Mr. PECORA. Is Mr. Kanzler here?

Mr. LORD. He is in town.

Mr. PECORA. Do you know where he is at the moment? I want him here this afternoon.

Mr. LORD. I will try to reach him. Do you want me to reach him now or this noon?

Mr. PECORA. Mr. Chairman, would you allow the witness to suspend just a few minutes? I would like to find out if Mr. Kanzler will be here this afternoon?

The CHAIRMAN. We will adjourn very soon now.

Mr. PECORA. You can do it at 12 o'clock when the committee will take a recess.

Now, do you recall an instance where, as a result of the consolidation of two of the banking units of the Group, the capital structure of the consolidated corporation was reduced and a dividend of $2,500,000 in bonds was declared to the Group Co.?

Mr. LORD. I do, sir. Consolidation of the Guardian Detroit Bank and the Bank of Detroit.

Mr. PECORA. Yes. When did that take place?

Mr. LORD. My recollection is in the middle of 1930. (After referring to data.) I haven't the information right here. I think it was the middle of 1930. Do you want me to give the exact date?

Mr. Pecora. No. Mr. Chairman, that would involve considerable examination of this witness. It is 5 minutes of 12. I suggest we recess.

The Chairman. You spoke about Mr. Kanzler's coming on to Washington to negotiate the loan from the R.F.C. Did he get that loan?

Mr. Lord. It is a long story. He did not.

Mr. Pecora. I am going to go into that in detail, Mr. Chairman.

The Chairman. We will take a recess now until 2 o'clock.

Mr. Pecora. Will you be good enough to ask Mr. Kanzler to be here?

Mr. Lord. Yes.

(Accordingly, at 11:55 a.m., a recess was taken until 2 p.m. of the same day.)

AFTER RECESS

(The subcommittee reconvened at the expiration of the recess at 2 p.m., Thursday, Jan. 4, 1934.)

The Chairman. The committee will come to order. Proceed, Mr. Pecora.

Mr. Pecora. Mr. Ernest Kanzler.

TESTIMONY OF ERNEST KANZLER, 2501 IROQUOIS AVENUE, DETROIT, MICH.

The Chairman. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. Kanzler. I do.

Mr. Pecora. Mr. Kanzler, will you give for the record your full name, address, and business or occupation?

Mr. Kanzler. Ernest Kanzler; residence, 2501 Iroquois Avenue, Detroit, Mich.; president of the Universal Credit Corporation, with addresses at 1700 United Artists Building, Detroit, Mich.

Mr. Pecora. Mr. Kanzler, were you connected, as an officer or otherwise, with the corporation called the Guardian Detroit Union Group, Inc.?

Mr. Kanzler. Yes, sir. I was chairman of the board during the year 1932.

Mr. Pecora. Were you connected with that corporation as an officer or director from its inception?

Mr. Kanzler. Yes, sir. I was one of the organizers. Do you want me to sketch the history?

Mr. Pecora. Yes. Just give an outline of your connection with the company from its inception.

Mr. Kanzler. In 1926 I was interested in organizing a bank, which was later called the Guardian Detroit Bank, with five other gentlemen. This bank opened its doors in June 1927.

Senator Couzens. That was under a State charter, was it not?

Mr. Kanzler. That was under a State charter, Senator Couzens, in June 1927. The bank was affiliated with the Guardian Trust Co. and the Guardian Detroit Co. I was the vice president of this institution and a director in the Trust Co., and in the company. I left the active operation in March 1928, but since that time, and up to February 11, I retained a directorship in several of the affiliated insti-

tutions connected with the companies growing out of that original organization.

Mr. PECORA. February 11 of what year?

Mr. KANZLER. 1933. I presume I continued beyond that, but it was not active.

Senator COUZENS. When you left in 1928, Mr. Kanzler, when did you return to the organization?

Mr. KANZLER. I returned—I never was on the pay roll of the organization. Whenever I have served, I have served in just what time I could devote from my credit company business. I served as chairman of the board of the Group Co. after my election to that office, I think, from January 26, 1932.

The CHAIRMAN. What has been your business?

Mr. KANZLER. What is my business?

The CHAIRMAN. Yes.

Mr. KANZLER. The Universal Credit Corporation, which is an automobile financing corporation with branches in 35 cities, financing time sales of automobiles. This is a rather extensive business, and it has occupied a considerable amount of my time. We have done about $900,000,000 worth of financing since 1928.

Mr. PECORA. Do you recall attending and presiding over the annual meeting of the stockholders of the Guardian Detroit Union Group, Inc., which was held on January 24, 1933?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And which, as I understand, was the last annual meeting of the stockholders of that company.

Mr. KANZLER. Yes, sir. I conducted that meeting.

Mr. PECORA. About how many stockholders attended that meeting?

Mr. KANZLER. I should judge there were about 130 or 140 people there. There must have been about 20 rows, and about 8 or 10 in a row.

Mr. PECORA. At that meeting do you recall whether or not an annual report was submitted or presented in any form whatsoever to the stockholders for the year 1932?

Mr. KANZLER. At that meeting I made some remarks to the stockholders from notes that I had which I read, because it was the first meeting I had ever conducted, and I was not quite sure of myself as to how to conduct a meeting of that kind, so I had prepared some notes which I read to the stockholders, and I also had prepared some charts which indicated the growth of the various institutions that were members of the group, and after I had read up to the point where those charts were material, I left off the writing that I had prepared and continued an informal discussion about each of the various units, and commented on the conditions in those cities as illustrated by the charts.

Mr. PECORA. Do you know whether or not there is in existence either the original or any copy of the notes from which you read your report, or part of it, to the stockholders at that annual meeting?

Mr. KANZLER. I have the actual notes which I prepared for my own reading and which I read.

Mr. PECORA. Do you have them with you?

Mr. KANZLER. Yes, sir; I have.

Mr. PECORA. Will you please produce them?

Mr. Kanzler. Yes, sir [producing a document].

Mr. Pecora (after examining document). Mr. Kanzler, did you read to the stockholders at the last annual meeting all of the matter which is typewritten and handwritten on the document which you have handed me?

Mr. Kanzler. I have not changed the document any, and I presume I read it all just as it is.

Mr. Pecora. Is it fair to assume that those portions of this document which are deleted by lead pencil lines were not read?

Mr. Kanzler. Yes, sir.

Mr. Pecora. I offer it in evidence.

The Chairman. Let it be admitted and entered in the record.

(Kanzler notes, annual meeting of stockholders, Guardian Detroit Union Group, Inc., Jan. 24, 1933, were received in evidence, marked "Committee's Exhibit No. 63, Jan. 4, 1934," and the same were subsequently read into the record by Mr. Pecora.)

Mr. Pecora. The document, which has been marked "Committee's Exhibit No. 63", reads as follows [reading]:

Annual reports of 1932 are hardly complete without reference to economic conditions, to the need for drastic curtailment of governmental expenditure, the necessity of finding solutions for the European situation and unemployment, and the desirability of enacting banking legislation.

These problems are controversial. They have been debated by experts; writers of authority have discussed them in the public prints.

We have very definite opinions on these problems and our organization has contributed liberally in time and effort to help solve them.

But, since the full discussion of even one of these problems affecting the economic situation would, were it adequately treated here, consume infinitely more time than is at our disposal, we want you to know that we are constantly on the alert to changing conditions. We have at our disposal the best obtainable counsel and in our operations during the past year we have been guided by this counsel and have charted our course accordingly.

The safety of funds which our deositors have entrusted to us is paramount to every other consideration. From this viewpoint, 1932 was a year of notable improvement.

Despite the generally adverse business conditions which prevailed, no less than $100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against aggregate deposit liabilities of $290,000,000. This degree of liquidity is not excelled by any bank or group of banks in the entire State of Michigan.

Mr. Kanzler. Mr. Pecora, may I interrupt? I think you will find "any bank" is crossed off.

Mr. Pecora (reading):

This degree of liquidity is not excelled by any group of banks in the entire State of Michigan.

Is that the way you think that was read?

Mr. Kanzler. I am sure it was, because I remember it at the time. I thought it was an overstatement, and that there might be some bank that was 100 percent liquid, or 90 percent liquid, and so that was crossed off.

Mr. Pecora (continuing reading):

While bettering their liquid position, our banks have at all times continued to render constructive, helpful service to customers and have played an important part in encouraging industry to maintain employment and in rendering distinct assistance and cooperation to their respective communities.

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies necessarily affected our earning power—for liquidity can be maintained only at the expense of profits. For the year 1932,

operating earnings of the banks and trust companies in the Group, after all expenses of operation, taxes, depreciation on banking houses and equipment and losses on securities sold, but before reserves, were $2,619,443. On the same basis and for the same period, the consolidated net operating earnings of the Group Co., banks, trust companies and all other affiliated companies, amounted to $1,316,952.

Dividends paid during the year amounted to $375,134. Conservative policies made advisable the discontinuance of dividends during the second quarter of 1932. The remaining earnings of $941,818, together with recoveries of $1,131,005, from items charged off in previous years, plus sums taken from capital funds in an amount of $8,966,932, totaling $10,939,756, were transferred to reserves.

Computed on the basis of the aggregate capital, surplus, and undivided profits of the unit banks and trust companies, as reflected by their published statements of December 31, 1932, plus the net worth of the other affiliated companies at market prices of securities on December 31, 1932, the book value of the group stock amounts to $17.04 per share. This figure does not include total reserves remaining in the banks and trust companies exceeding $6,700,000, nor does it include a reserve of $5,000,000 on the books of the Group Co. for contingencies not determinable at this time, but which your management has deemed it prudent to create, in view of the present business situation.

The policy of liquidating securities affiliates which was initiated in 1931 has been continued during 1932 in an orderly manner. During 1932, a difficult period for liquidation, securities carried on the books at $1,712,821 were sold with a resultant net loss of only $42,201, accomplishing this liquidation by the sale of the least desirable holdings and retaining only the highest grade securities. On December 31, 1932 the aggregate market value of securities owned by these companies was $5,688,797.

Outside of the banks and trust companies whose statements are regularly published, and in addition to the securities companies which are in liquidation, as stated above, there are included also in the Group the following three operating companies—the Union Title & Guaranty Co., the New Union Building Co., and the Guardian Safe Deposit Co.

The Union Title & Guaranty Co. depends upon real estate activity for its profitable volume of business. During 1932 there was continued stagnation of real estate activity in the metropolitan Detroit district. In spite of the greatly curtailed field for title-company operations, this company was able to show a small profit ($1,600) in 1932 as against a $47,000 loss in 1931. Though its operating income declined 20 percent, its expenses were cut about 30 percent to produce this result.

The year 1932 has been one of continued difficulties for office-building operation. Under the existing leases with the New Union Building Co., the Union Guardian Trust Co. handles all details of building management, and all results of such operations are reflected in the trust company statement as published. Under this arrangement, the New Union Building Co. made a profit of $219,000 before depreciation. Depreciation of building and equipment amounted to $290,000.

The funds which are being accumulated in the reserve for depreciation are used to make principal payments on the mortgage obligation of the building company. Since completion of the building in 1929, the building has been written down by $1,227,916.66, and during the same period its mortgage indebtedness has been reduced by $575,000 to $6,425,000. This indebtedness is now being reduced at the rate of $250,000 per year. Except for current operating accounts, the building company has no obligations other than the mortgage debt.

There was a greater than normal demand for safety-deposit boxes this year, and a as result the Guardian Safe Deposit Co., which operates all the safe-deposit business in metropolitan Detroit and a few other units, had a slight increase in its earnings, the total for the year being $4,800.

Drastic economies of operation were continued during the year with satisfactory results. In spite of the fact that total operating income of banks and trust companies decreased 18.32 percent, the controllable operating expenses—i. e., other than interest on deposits—were reduced 25.41 percent.

To effect further operating economies, the Grosse Pointe unit, the Guardian Bank of Grosse Pointe, was merged with the Guardian National Bank of Commerce on December 31, 1932.

FINANCIAL STABILIZATION

In the latter part of December 1931 the American State Bank of Lansing, one of the three largest banks in Lansing, had been forced to close its doors. Public

confidence in Lansing was badly shaken. The public hysteria was directed almost entirely against the City National Bank, whose deposits were rapidly being withdrawn.

To protect the citizens of Lansing from a catastrophe from which the city would have taken many years to recover, and to establish financial stability for the city of Lansing, the Capital National Bank of Lansing, our unit, on December 28, 1931, took over the City National Bank of Lansing, which then was an institution with total footings of approximately $9,000,000.

To protect our unit against possible loss in taking over the assets of the City National Bank, certain of the directors of that institution, together with some public-spirited corporations and other individuals, put up in trust as a guaranty fund, securities having a market value of $1,500,000.

Announcement that one of the Guardian units had guaranteed deposits of the City National Bank immediately quieted the fears of the Lansing public and financial tranquility was reestablished within short order.

The wisdom of this action has been fully demonstrated and public confidence in Guardian institutions and Guardian policies has increased in no small degree.

On January 14 of this year, the only other bank in Port Huron outside of our unit was compelled to close its doors. At the same time, two small banks, one in Algonac and one in Marine City, nearby communities, also closed their doors.

As was to be expected, the public in Port Huron became apprehensive as to the safety of their deposits. For a day or two even our own bank at Port Huron suffered withdrawals. These withdrawals have ceased, and funds which had been placed in safety-deposit boxes by frightened customers have already begun to return to our bank.

It is an inherent feature of the present banking situation, involving as it does such a delicate and fragile thing as credit reputation, that the many instances of assistance rendered by the group to communities and institutions of Michigan can never be detailed. Actual results, however, have developed an understanding in many quarters of the effectiveness of group banking as conducted in your corporation, and have made for our units many new friends and an enhanced reputation.

The banking units of the Guardian Detroit Union Group are located in 16 communities

It is interesting to note that, as measured by deposits, in 11 of these communities the Guardian units are first in size; in 4 cities they are second in size; and 1, in Hamtramck, is in third place.

Putting it in another way, in 3 cities our units have 100 percent of the deposits in the city; in another 3 cities our units have more than 75 percent of all deposits; in 2 cities our units have more than 50 percent; in 5 cities our units have more than 25 percent; and in 3 cities we have less than 25 percent.

That our units are gaining in good will and strength in the eyes of the various communities of the State is best demonstrated by the fact that two of our largest out-State units, which at the beginning of the year had been in second place, went to first place in their respective cities. Two other units advanced their position from third place to second. Only one unit in the Group, namely, Dearborn, lost its relative position during the year, the same having been passed by the Deaborn State Bank.

Fourteen of the twenty banks and trust companies in the Group are 20 years old or more. Seven of these are 60 years old or more—the average age being 35 years.

Mr. Kanzler. Mr. Pecora, if I may interrupt here, it was at this point that I brought out the charts, and in connection with this information I discussed the situation of each unit and the community.

Mr. Pecora. You have not any copy of those charts?

Mr. Kanzler. They were all extemperaneous. I think the charts probably are still in Detroit.

Mr. Pecora. I will resume my reading of Committee's Exhibit No. 63 [continuing reading]:

The stock ownership of your corporation is the best evidence of the confidence the directors and officers have in the future of the group. Its institutions are manned by men who are outstanding citizens in their respective communities, who have for years been identified with their institutions, and who are familiar with industrial and economic conditions of each city. They are men who are

themselves large holders of stock in your corporation and whose every effort is devoted to an interested development of service to the public and the community in which they are located.

Shares owned by officers and directors of units of the group as of January 12, 1933, amounted to over 400,000 shares, or more than 26 percent of the total of 1,544,844 shares outstanding; 1,435,978 shares, or 93 percent, are owned by residents of the State of Michigan. There was a substantial increase in the number of shareholders during the last year. There are now 9,837 shareholders, compared with 8,945 on December 31, 1931. Ownership of large holdings of stock remained practically unchanged during the year.

IN MEMORIAM

It is with deep regret that we report the great loss the Group has suffered by deaths during the year—

On March 26: Edwin H. Nelson, president Nelson, Baker & Co.

On April 1: John R. Russel, vice president Clayton Lambert Manufacturing Co.

On June 23: Daniel D. Brown, chairman First National Trust & Savings Bank, Port Huron.

These men were all directors of the Guardian Detroit Union Group, and their memory is warmly cherished by those with whom they were associated.

Notwithstanding the exceptionally trying times and their effect upon our banking institutions during the year, our unit banks are entering the new year prepared to furnish better and more efficient banking service to the communities which they serve.

Perhaps never in the history of banking has more been demanded of directors, officers, and staff than in the past year. It has been an inspiration to note the unselfishness with which our organization has faced its daily problems.

We wish to take this occasion to express to them our appreciation for their zeal, loyalty, and cooperation which has been shown.

We also take this opportunity to thank our shareholders for their splendid support during the year 1932, which has resulted in an increased amount of business being directed to units of the Group. Continuance of this confidence during 1933 will stimulate the operating staff to even greater endeavors in the interest of the stockholders.

The preeminence of the Guardian Detroit Union Group, Inc., as a vital factor in the economic and financial life of Michigan becomes impressive when one considers the outstanding men representing its affiliated institutions as directors. With these contacts, any economic improvement or further development of Michigan's industries will directly reflect such prosperity within our own institution.

Mr. Kanzler. This next was not read, Mr. Pecora. That was just a computation.

The Chairman. And right after that meeting you proceeded to Washington to get a loan from the Reconstruction Finance Corporation.

Mr. Kanzler. Yes, sir.

Mr. Pecora. Does this comprise substantially what you gave to the stockholders orally at the meeting of January 24 last, as the annual report of the Group or holding company for the year 1932?

Mr. Kanzler. It does, plus the remarks I made in commenting on the situations in the local communities that were represented by those charts.

Mr. Pecora. Could you give this committee now, from your recollection or from any notes that you may have, the substance of those remarks you made?

Mr. Kanzler. I had no notes. I commented on the conditions of the banks throughout Michigan, as I recall it, and the fact that there had been many banking failures. I commented on the—well, I cannot generalize, Mr. Pecora. I would have to sort of think back over each city. I remember I commented on the fact that the automobile

industry had very seriously affected conditions in Flint and in Jackson; that conditions were a little bit better in Kalamazoo, because the paper business had been rather satisfactory. I had commented on the fact that in Port Huron the situation was particularly difficult because of the fact that it was so easy for depositors to take money across the river and put it into Canadian banks. I commented on the general real estate situation involved in all units. I think that about represents it. There probably was some more said, but I do not recall exactly what it was.

Mr. Pecora. Mr. Kanzler, who prepared this document which has been marked in evidence as Committee's Exhibit No. 63 of this date?

Mr. Kanzler. Most of the text was prepared by myself. I asked for the figures from different individuals who were operating men in the group.

Mr. Pecora. Did you know whether or not, at the time you made this report to the stockholders on January 24 last, the group had incurred a deficit for the year 1932?

Mr. Kanzler. Are you speaking of the group as a group company, or of the banks and trust companies and affiliated institutions of the group?

Mr. Pecora. I am speaking of the group as a separate corporate entity.

Mr. Kanzler. I do not recall that I was particularly conscious of what the particular books of that one corporation showed. Any interest of the stockholders was in what their combined investment had done during the year, and that was the figure I was trying to give them. I did not think it was particularly important to know just what one of the corporations in the group had done.

Mr. Pecora. The stockholders to whom this report was made were stockholders only of the group, were they not?

Mr. Kanzler. Yes, sir.

Mr. Pecora. And, as such, do you not think they were interested in the financial condition of the group as a separate corporate entity?

Mr. Kanzler. I can only answer that by saying this, that we had prepared and had before our executive committee a form of the consolidated figures of all the banks and trust companies and all the affiliates and the Group Co., and we were publishing that because the stockholder then could see what the whole picture amounted to.

Mr. Pecora. Did you personally know, when you made this report at the last annual meeting of the stockholders of the group, whether or not the group, for the calendar year 1932, had done business at a net profit, or showed a deficit at the end of the year?

Mr. Kanzler. Mr. Pecora, I will have to answer that question this way. We did not pay any attention to the amount of dividends that might be received from group units to the Group Co., because we were not on a dividend-paying basis. The Group Co. paid no dividends. It was of no material moment at that time as to whether or not the cash position of the Group Co. was larger or less by reason of some dividends that either had been declared or had not been declared; and another reason——

Mr. Pecora. One moment. You said the Group Co. paid no dividends. You mean it paid no dividends during that year.

Mr. Kanzler. No; at that time.

Mr. Pecora. It did pay some dividends during the year 1932, did it not?

Mr. Kanzler. Yes, sir.

Mr. Pecora. Do you know what the aggregate amount of those dividends was?

Mr. Kanzler. I think it is stated in the report as something like $375,000.

Mr. Pecora. $375,134?

Mr. Kanzler. Yes, sir. That was the first quarter of 1932.

Mr. Pecora. Well now, can't you answer the question which I put to you before and which I think is rather simple and which I will repeat perhaps in another form: When, on January 24 last, you as chairman of the board of the Group made this annual report to the stockholders that were present, did you or did you not know that during the calendar year 1932 the Group as a separate corporate entity had incurred a deficit of $714,331.26, which included the carry-over of deficits for the 2 preceding years amounting in the aggregate to $288,930?

Mr. Kanzler. In the way our reports were being made that was not material, to my mind.

Mr. Pecora. I have not asked you about its materiality or immateriality. I ask you if as a matter of fact you knew that during the calendar year 1932 the holding company or the Group had incurred a deficit in the amount stated?

Mr. Kanzler. The reason I am answering the way I am is because it never was material, and I do not know whether I ever saw a sheet showing a deficit or not, because of the manner of our keeping the books.

Mr. Pecora. Did you know whether or not the company had incurred a deficit for the calendar year 1932 when you made the annual report for that year to the stockholders at the meeting held on January 24, 1933?

Mr. Kanzler. I cannot say now, because I do not recall having placed particular emphasis on what the holding company position was.

Mr. Pecora. What was your purpose in making an annual report to the stockholders of the group if it did not include the purpose or object of stating to the stockholders whether or not their company, the group, the Guardian Detroit Union Group, Inc., had developed a deficit or a surplus for the year 1932?

Mr. Kanzler. The purpose was to tell them what the combination did, and that is what was told them.

Mr. Pecora. For the purpose of telling them what the combination did. Eliminate from your purposes that of telling them what the group as a separate corporate entity did on the whole.

Mr. Kanzler. Well, the Group Co. figures, whatever they were, were included in the consolidated figures. Nothing was eliminated. There was no deficit that was not stated if there was a deficit. There was no profit, if there was a profit, that was not stated in the combined figures.

Mr. Pecora. Have you a copy of committee's exhibit no. 63 of this date? That is this report or document that you handed me and which you say you read to the stockholders.

Mr. Kanzler. I just gave one away. I think I have another one here.

Mr. PECORA. Will you look at it, please?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Look at it carefully. Point out to this committee anything therein stated which indicated in words or substance that the Guardian Detroit Union Group, Inc., for the calendar year 1932 had shown a deficit of any amount.

Mr. KANZLER. We stated this on page—I think it is marked "page 1":

> That on the same basis and for the same period the consolidated net earnings of the group companies, banks, trust companies and all other affiliated companies, amounted to—

this figure.

Mr. PECORA. Where do you see that?

Mr. KANZLER. That is on page 1.

Mr. PECORA. I don't see it on page 1 of my copy.

Mr. KANZLER. Maybe if I can see your copy, Mr. Pecora, I can clarify that. [Pointing on Mr. Pecora's copy.] Beginning with that sentence.

Mr. PECORA. It is really page 3 of the document you handed me, although at the bottom of the page there appears the numeral 1.

Mr. KANZLER. That is right. I was looking at that when I said page 1.

Mr. PECORA. All right. Now read the portion that you said informed the stockholders of the group that they had a deficit for the year 1932.

Mr. KANZLER (reading):

> On the same basis and for the same period the consolidated net operating earnings of the group companies, banks, trust companies, and all other affiliated companies, amounted to $1,316,952.

Mr. PECORA. Is that the statement that you say informed the stockholders that the group operated at a deficit that year, or had a deficit at the end of the year?

Mr. KANZLER. That would include any operations of the Group Co., and if there had been a deficit or if there had been a profit that could have been included in that figure.

Mr. PECORA. Where is the language, figures, or statement of any kind here that by any manner of construction or interpretation that you choose to apply to the words used here, informs the stockholder that the group or the holding company showed a deficit at the end of the year 1932?

Mr. KANZLER. Mr. Pecora, I can only say this, that that was a clearing company and we did not show the exact earnings of some of the other affiliates here, because the whole picture was a consolidtaed picture, and we felt that whatever was material in the operations of a clearing company which could have been changed by the mere declaration of a dividend or by the transfer of some expense would have changed that figure. So it really was not a figure that the stockholder should have been or would have been interested in.

Mr. PECORA. Why do you think a stockholder would not have been interested in any figure or statement that would have informed him exactly to the effect that the company, the Group Co., for the year 1932, showed a deficit at the end of the year? Why didn't you consider that a thing that the stockholder of the Group Co. would be interested in?

Mr. KANZLER. For this reason: It might have been very misleading information. You might have had a subsidiary company making a great deal of profit and holding that profit, but simply not declaring it to the Group Co. Then to bring out a statement and say that the holding company was operating at a deficit because it had not transferred a dividend from a subsidiary company to a holding company and that for that reason it ran at a deficit, would not be telling an intelligent story.

Mr. PECORA. Do you think an intelligent picture of the financial condition of the Group Co. was conveyed to the stockholders through the medium of this report?

Mr. KANZLER. I think so, when taken in conjunction with the balance sheet.

Mr. PECORA. What balance sheet?

Mr. KANZLER. Well, we had a balance sheet that we were to publish with this report.

Mr. PECORA. That you were to publish?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Why wasn't it published?

Mr. KANZLER. Because the next day I took the train to Washington, and from that time on until 2 and 3 o'clock every morning we were engaged in the operations which finally led up to the holiday.

Mr. PECORA. Those operations were necessitated by reason of the financial condition of the banks that were units of the Group, were they not?

Mr. KANZLER. They were occasioned by our desire to provide for the future of what we thought might happen in certain eventualities.

Mr. PECORA. And what you thought would be a proper provision for the future was the obtaining of loans?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And you sought those loans from the Reconstruction Finance Corporation?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And that was occasioned by the financial condition of the banking units of the Group?

Mr. KANZLER. No, sir; it was occasioned by the financial conditions throughout the whole State of Michigan, by the financial condition of institutions in the cities where we had units. Our units were in comparably better position than many of the units in cities where we were doing business, and in conjunction with Mr. Leyburn we had thought it was essential that we develop a position for this Group, so that regardless of what might happen economically or what might burst out, what flame might burst out somewhere in Michigan, we would have spinal column of banks that would maintain itself regardless of what happened.

Mr. PECORA. Is there anything set forth in this report which you made to the stockholders which reflected that that was the situation, the situation which prompted you the day after you delivered this report for the year 1932 to the stockholders, to rush to Washington to seek financial assistance from the R.F.C.?

Mr. KANZLER. Why, I think so, decidedly. We had told them about the experience we had just had in Port Huron. They knew the conditions throughout the State of Michigan. They knew how many

banks had failed. These were the strongest, practically without exception the strongest, surviving units in every city.

Senator Couzens. Including Detroit?

Mr. Kanzler. No. But stockholders there knew the Detroit situation. There was no need describing to them the condition in which the city found itself and that we were working day and night to keep the city bonds from going into default. The general conditions of the country were well known.

Senator Couzens. You said a while ago that some of the units, or the units of some of your competitors or the other group, were worse off than you were and that you had the strongest chain, if I interpret your testimony correctly. Is it not a fact that some of your units were in equally bad condition?

Mr. Kanzler. Well, I don't know what you call in bad condition. Certainly there were some units that we wanted to make more liquid, because were there a run to start in some of those cities it is obvious that they would have had a difficult time.

Senator Couzens. You made a comparison between the units of the other group. I assume there was only one other group?

Mr. Kanzler. No, sir; I did not mean it in that sense. I was making a comparison. If I may state an example: We might have a unit, we will say, in Saginaw. There might be other banks in Saginaw that might not be as strong as our units. Should there be difficulty in one of those other units, it would immediately react upon our unit, and therefore it was our desire and our purpose, and that was why we came to the R.F.C., to make that Saginaw unit—I am just using that as an example—so powerful that it could withstand any difficulty in that particular city. Now, as a matter of fact, Saginaw we felt was such a strong bank that we did not ask for any assistance for it at all.

Senator Couzens. What banks did you ask for assistance for?

Mr. Kanzler. I haven't a recollection of all that now, Senator. That is, I think, a matter of record.

Senator Couzens. Where?

Mr. Kanzler. Oh, I think the R.F.C. must have all those applications.

Senator Couzens. Did you not make an application for the Group as a whole and take securities from a number of your units to make up the aggregate security for the R.F.C.?

Mr. Kanzler. No, sir; that was not the original application.

Senator Couzens. I am not talking about the original; I am talking about the final application.

Mr. Kanzler. Well, the final application it was a question of applying for a loan for a mortgage company.

Senator Couzens. Yes.

Mr. Kanzler. And the mortgage company was to receive assets from individual units throughout the State.

Senator Couzens. That is the point I am trying to get at. What individual units throughout the State?

Mr. Kanzler. May I refer to a record that I have here?

Senator Couzens. Yes; certainly.

The Chairman. Had the mortgage company been organized and was it operating, or were you going to organize one?

Mr. KANZLER. The Mortgage Company, Senator Fletcher, was a company that developed about February 3 or 4 or 5. The holiday was declared on the night of the 13th. Mr. Allee of the R.F.C. came with Mr. McKee on Saturday, January 28, and as a result of some phone conversations from Detroit to Washington that plan was finally decided upon, and then counsel in Detroit and Mr. Allee representing the R.F.C. had the mortgage company papers all prepared and it was ready to function for that purpose as of that week end that the holiday was declared.

The CHAIRMAN. I did not mean to interrupt your answer to the other question.

Mr. KANZLER (after referring to data). To answer your question, Senator Couzens, in its final form—and by final form I must recall those days which were very hectic—the application had been handled and rehandled from January 26, when it was first proposed to the R.F.C., until the final date when the holiday was declared, and originally there were many more banks included in this application.

The final proposal from the R.F.C. was an offer with a condition attached to it that if those conditions were satisfied they would loan on collateral as offered 37 million dollars, and under that offer as it was then scheduled the recipients of those funds, banks in the State, were the Guardian National Bank of Commerce——

Senator COUZENS. How much?

Mr. KANZLER. $10,500,000. Union Industrial Bank of Flint—do you want to know the collateral on those? Shall I give that detail?

Senator COUZENS. Yes; I would like to have it.

Mr. KANZLER. The Guardian National Bank of Commerce of Detroit required a loan of $10,500,000. It offered $11,655,000 worth of securities, which consisted of $3,200,000 of city of Detroit bonds, $1,100,000 of Fisher & Co. loan, which incidentally has been paid, approximately $2,300,000 of Simmons Co. bonds—that is Simmons Bed Co.—and approximately $5,000,000 of selected first mortgages.

The Union Industrial Bank of Flint was to receive out of this $37,500,000, $1,500,000, and for this it was offering a first mortgage on two banks and office buildings, one of them being the largest office building in Flint, which had just been then built, and the cost of these two buildings was $3,772,000, and there was no mortgage debt, but the amount required was a million and a half as against that 3 million seven.

The next bank was in Grand Rapids, the Grand Rapids National Bank. This was for a loan of a million dollars, and it was offering a first mortgage on a 13-story bank and office building in the heart of the city, which had been built some time before. The cost was $2,160,000.

We wanted $600,000 for the City National Bank of Battle Creek. That bank incidentally is open today. This bank was offering a mortgage on its bank and office building, which cost $1,204,000, the loan being $600,000.

The next bank that required liquidity was Jackson. The loan was $500,000. It offered a first mortgage on its bank and office building, 20-story building, the outstanding building of the city, which had been built about 2 years before, cost about $3,489,000.

That made a total of $14,100,000. Then there was an additional loan asked for the Union Guardian Trust Co. of $13,077,000. They already had a loan or a commitment of $14,000,000. The combined total for the trust company would have been $27,800,000. I am giving more or less round figures.

For this collateral had already been pledged of $31,790,000, and additional collateral of $6,300,000 was being offered, which was accepted by the R.F.C.

In addition to that collateral the Group Co. offered $898,000 of marketable securities and its building, the Union Guardian Building, in which it had an equity of $4,100,000, and all its assets in the Congress Corporation, which had some but uncertain value, which, while their face was 4 million five, that is not a representative figure as to what they were worth. They were worth less than that. They were worth very much less than that, because of items which had been lifted out from the various banks by the Group Co.

That made a total loan required of $41,000,000, and this collateral, including that 4 million five of the Congress Corporation, was $67,947,000.

This loan was offered us on condition that we raise 2 million dollars for the capital of a mortgage company and an additional $4,218,000.

Senator COUZENS. What was that additional for, in cash?

Mr. KANZLER. That was cash, yes; to further secure this loan.

Senator COUZENS. Was there any other promise made to the R.F.C. as security for the loan?

Mr. KANZLER. No, sir; not that I know of.

Senator COUZENS. What did the R.F.C. value that at, the amount of the offer, 37 millions plus?

Mr. KANZLER. They offered $37,720,000.

Senator COUZENS. And that is what they valued the security at, is it?

Mr. KANZLER. That is the loan value that they attached.

Senator COUZENS. Yes; that is what I mean.

Mr. KANZLER. Yes, sir.

The CHAIRMAN. That is to all trust companies, banks in the Group, all together?

Mr. KANZLER. Yes, Senator Fletcher. We never knew how much loan value they would put up against, for instance, this item or that item or another item. We were just told that the total that we had offered had a loan value of $37,720,000.

Senator COUZENS. Was there not at that time discussed the subordination of some large deposits?

Mr. KANZLER. Yes, Senator Couzens; that is included in this figure that I have here.

Senator COUZENS. For the Union Guardian Trust Co.?

Mr. KANZLER. Yes, and when I say the Union Guardian Trust Co. asked for a certain amount, that subordination is included.

Mr. PECORA. Mr. Kanzler, in the preparation of this report which you read to the stockholders at the last annual meeting of the Group this report was calculated to give the stockholders a rather pleasing and confidence-inspiring picture of the situation, wasn't it?

Mr. KANZLER. Well, I don't think we inspired their confidence by telling them that we just had a run in Port Huron particularly. I think we tried to tell them about what the conditions were.

Mr. PECORA. Well now, among other things, you said:

> The safety of funds which our depositors have entrusted to us is paramount to every other consideration. From this viewpoint 1932 was a year of notable improvement.

Had it been a year of notable improvement in that respect?

Mr. KANZLER. It certainly had. We had increased the liquidity of the Guardian National Bank of Commerce from 30 percent to 40 percent.

Mr. PECORA. Yes.

Mr. KANZLER. We had been very highly complimented on that. That certainly was a notable improvement. In other units, the exact conditions of which I cannot recall right now, there had also been great improvement. It is obvious, of course, that the depression was not getting any better. The depression was getting worse, and everybody knew it.

Mr. PECORA. But you were improving your condition according to this report?

Mr. KANZLER. I think by comparison with what was going on we certainly were improving; our operations were improving.

Mr. PECORA. No, not by comparison with what was going on, but by comparison with the preceding year, had the safety of the funds of the depositors, the various banking units of the group, been improved over the preceding year?

Mr. KANZLER. Certainly you improve the safety of the funds of the bank when you improve it from 30 to 40 percent.

Mr. PECORA. Had they been improved?—is what I am asking you. Had the safety of the depositors' funds been improved for the year 1932 over the preceding years?

Mr. KANZLER. I think there was a great improvement from the consideration of the safety of funds which our depositors entrusted to us.

Mr. PECORA. Where was that improvement manifest?

Mr. KANZLER. It was manifested in the greatly increased liquidity of some of our units.

Mr. PECORA. How about all of the units as a whole? You were referring in this report to the safety of the funds in all of your banking units, were you not?

Mr. KANZLER. I did not refer—I admit that we had not done as well in the city of Dearborn where we had passed by another bank. I did not try to make this figure specific for every institution.

Mr. PECORA. You tried to give the general picture of the situation of all of the unit banks in the Group?

Mr. KANZLER. Yes, and I enlarged on it in my remarks with the charts.

Mr. PECORA. Yes, but in this portion, which is the only portion reduced to writing and of which we have an authentic record, you were referring to the safety of the funds of the depositors of all of the bank units, were you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Now, considering the safety of those funds in all of the banking units as a whole, had their safety been improved during the year 1932 over the preceding year?

Mr. KANZLER. I felt we had done—it was a notable improvement all along the line.

Mr. PECORA. You mean the actual safety of all the depositors' funds had shown an improvement over the safety of those deposits for the preceding year, do you?

Mr. KANZLER. I would say so.

The CHAIRMAN. Had your deposits increased?

Mr. KANZLER. No, sir; our deposits had declined.

Mr. PECORA. Now you say also in your report:

> Despite the general adverse business conditions which prevailed, no less than \$100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against aggregate deposit liabilities of \$290,000,000.

In that statement of the cash or Government securities assets of the banks, the banking units of your group, in that estimate of a hundred million dollars as the value of such assets did you include the Government bonds or securities which were pledged?

Mr. KANZLER. Yes, sir.

Mr. PECORA. How many of them were pledged and in what amount?

Mr. KANZLER. I don't believe I can tell you.

Mr. PECORA. That is not something to be taken into account in determining the liquidity of the bank. Don't you deduct the pledged securities for the purpose of determining liquidity?

Mr. KANZLER. Well, these figures were compared with the preceding year, and they showed a great improvement.

Mr. PECORA. Well, that does not answer my question, Mr. Kanzler.

Mr. KANZLER. Well, Mr. Pecora, there are limitless ways of determining liquidity.

Mr. PECORA. Isn't that one of the ways?

Mr. KANZLER. That is one way.

Mr. PECORA. And isn't it a safe and sound way and an honest way?

Mr. KANZLER. Well, I think it is a great improvement. I think banks now for the first time are publishing statements showing pledged Government securities.

Mr. PECORA. Whether they are publishing them now for the first time or not, isn't it the safe, sound, and honest way of determining liquidity of a bank?

Mr. KANZLER. I think banks generally are improving their statements.

Mr. PECORA. That still does not answer my question, Mr. Kanzler. Let me put it in another way: In this report to the stockholders of the group you attempted or purported to present to them a picture of the operations of the banking units of the group as a whole for the year 1932, didn't you?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And in that report you included a statement which meant in substance that the liquidity of the banks had improved during the year 1932 over the preceding year, didn't you?

Mr. KANZLER. The liquidity of the banks and trust companies as a group.

Mr. PECORA. Now, Mr. Kanzler, as evidence of the liquidity of the banking units of the group you have stated in this report that

> Not less than 100 million dollars of assets of the banks and trust companies are held as cash or invested in United States Government securities against an aggregate of deposit liabilities of 290 million dollars.

And you did not in that estimate of 100 milliom dollars of cash and Government assets eliminate the Governemt bonds that were pledged, did you?

Mr. KANZLER. Not as compared to the preceding year. And that is the way you get your improvement. But it was common practice for us to look at our liquidity in that way. And everybody looked at it in that way. And the only way to get a comparison was to see what you had done before, and on the basis of what we had done before, and what everybody had done before, it had improved, and that is what we tried to state.

Mr. PECORA. Did you know how liquid your banks were when you included in the assets of the banks those Government securities which were pledged?

Mr. KANZLER. Mr. Pecora, when you ask me whether I personally know, of course I don't know. I never made any entries. I was not an operating man. We had an operating department, and they gave me figures in response to my questions, which I believed were reasonable and were thoroughly reliable. I had my regular business, and I would come and spend a good deal of my time attending to this business.

Mr. PECORA. To which business, your regular business?

Mr. KANZLER. No; to this business.

Mr. PECORA. Do you mean the group business?

Mr. KANZLER. Yes, sir. I did everything I could to try to help it along. Among the things I would do would be to ask questions about matters like this; and, quite naturally, I did not go through all the units to see whether any accounts were kept one way or another. I had to rely on the figures they gave me, and I believed them to be true.

Mr. PECORA. You knew that in that figure of 100 million dollars of cash and Government securities as assets, there was included Government securities which had been pledged by the various unit banks.

Mr. KANZLER. Well, we were making a comparison, and they had been included the year before.

Mr. PECORA. But you knew at this time that they were included in this statement of 100 million dollars cash and Government securities as assets?

Mr. KANZLER. Oh, yes. I knew that they were included.

Mr. PECORA. In this report you further stated to the stockholders:

> While bettering their liquid position our banks have at all times continued to render constructive and helpful service to customers, and have played an important part in encouraging industry to maintain employment, and have rendered distinct assistance in cooperating with their respective communities.

And in this statement you also make some mention of the fact, or what you stated to be a fact, that the unit banks had bettered their liquid position during 1932.

Mr. KANZLER. Yes, sir. I said this, as it shows, that as a group they were more liquid.

Mr. PECORA. Now, it was your purpose in compiling the figures embodied in your annual report to the stockholders to present a true and accurate picture, wasn't it?

Mr. KANZLER. Yes.

Mr. PECORA. And to give nothing that would be misleading.

Mr. KANZLER. There was nothing misleading.

Mr. PECORA. But I ask, that was your purpose, wasn't it?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Now, you then say as follows, in this report:

> The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies, it necessarily affected our earning power, for liquidity can be maintained only at the expense of profits.

Wasn't that true during the years 1930 and 1931 also, namely,that liquidity could be maintained only at the expense of profits?

Mr. KANZLER. I would say so.

Mr. PECORA. Then why was it that during those years, 1930 and 1931, as appears from considerable evidence, documentary and otherwise, that has been introduced before this committee, the Group was urging the banks, or suggesting to the unit banks, the payment of dividends which could only be paid by dipping into the capital funds of the banks?

Mr. KANZLER. Only, as I see it now, because it was considered the wisest thing to do in the light of all the circumstances.

Mr. PECORA. Then you say in your annual statement as follows:

> For the year 1932 the operating earnings of the banks and trust companies in the group, after all expenses of operation, taxes, depreciation on banking houses, and equipment, and losses on securities sold, but before reserves, were $2,919,443. On the same basis and for the same period the consolidated net earnings of the member banks and trust companies, and all other affiliated companies, amounted to $1,316,952.

Now, in estimating or determining the amount of the net operating earnings of the Group Co. and all of its banking units and affiliates, was there any deductions made for reserves, and for mark-offs and write-offs?

Mr. KANZLER. In estimating earnings?

Mr. PECORA. Net operating earnings, which are stated to have been $1,316,952.

Mr. KANZLER. No, sir; I think not.

Mr. PECORA. Do you think that gives an accurate picture of the net earnings, without first deducting reserves, write-offs and mark-offs?

Mr. KANZLER. Well, it was stated as being before reserves. But I might say, Mr. Pecora, that these paragraphs were given to me complete by our operating staff.

Mr. PECORA. I am asking you if you think that is the proper way of presenting an accurate picture.

Mr. KANZLER. Well, in those times everybody knew that there would be plenty of items that had to be written off.

Mr. PECORA. Everybody didn't know any such thing, because neither you nor I nor anyone else can tell what anybody else knew. That is so, isn't it? Aren't you assuming too much when you are assuming to tell this committee, or even to tell yourself, what everybody else knew?

Mr. KANZLER. Well, I knew and everybody else knew that there was a depression on, certainly, with the resulting effect of depreciation of assets.

Mr. PECORA. I wonder if the board of directors of the group knew that there was a depression on when they were suggesting to the unit banks to pay dividends that could only be paid by recourse to capital funds in addition to earnings. Did they know that there was a depression on when they adopted that policy?

Mr. KANZLER. There was a general depression on throughout all banks.

Mr. PECORA. Now, you say further in your report:

The policy of liquidating securities values, which was initiated in 1931, continued during 1932 in an orderly manner. During 1932, a difficult period for liquidation, securities carried at $1,712,821 were sold with a resultant net loss of only $42,201, accomplishing this liquidation by the sale of the less desirable holdings and retaining only the highest grade securities.

Will you tell this committee just how that was done? Who bought those securities which were being liquidated?

Mr. KANZLER. They were an inheritance from 1929 and—or I think all were probably from 1929, and——

Mr. PECORA (interposing). But who bought them from the companies being liquidated?

Mr. KANZLER. They were sold by the trust investment department of the Trust Co.

Mr. PECORA. But I asked you, who bought them?

Mr. KANTZLER. I am trying to explain that. I do not know through whom or to whom they were sold, but they were sold, I presume, in the market.

Mr. PECORA. Who bought them, do you know?

Mr. KANZLER. No; I do not know.

Mr. PECORA. Do you know whether or not the Group Co. itself bought those securities from the affiliate companies at a figure which showed a loss of only $42,000?

Mr. KANZLER. Oh, not at all.

Mr. PECORA. You are certain of that?

Mr. KANZLER. No. I am not certain of it, because I am not able to tell for sure anything that I do not know about for sure. But I am quite certain that Dr. Badger does not attempt any operations like that, or make any report like that.

Mr. PECORA. Do you know who bought those securities?

Mr. KANZLER. I don't know; but I think it was the public. I think they were sold in the market.

Mr. PECORA. Can you find that out?

Mr. KANZLER. I think you can; yes, sir.

Mr. PECORA. All right.

The CHAIRMAN. What kind of securities were they? Can you tell whether they were notes, mortgages, or what?

Mr. KANZLER. I am very sorry, Senator Fletcher, that I do not know the details. There was a mass of securities held there, and they were being liquidated under the supervision of Dr. Badger; and those which he thought—or I think his general principle was this: That those he thought might be recovered upon were retained and those that he thought less desirable and might not be recovered

when he found a good price in the market he sold. I think that was the principle upon which he was liquidating.

Mr. PECORA. I have the recollection, though perhaps faulty, that Mr. Lord gave some testimony before this committee this morning, which, among other things, included the statement that the group had put in something like 8 million dollars or more, into the various banking units, to help them out. And I have the further recollection that in that process of relief they took over a lot of securities. That is why I asked you a moment or two ago if any of those securities were purchased by the group at a price which resulted in a loss of only $42,000.

Mr. KANZLER. I see the import of your question, Mr. Pecora, and can almost state positively that that was not the case. The securities that were taken over by the group were securities that were purchased from unit banks and trust companies throughout the State. That was the situation as I understand it, and that was the purpose of the funds.

Mr. PECORA. And they were purchased at figures in excess of the prevailing market prices at the time?

Mr. KANZLER. From the banks?

Mr. PECORA. Yes; from the banks.

Mr. KANZLER. Yes; I think they were. They were figured at the—well, I cannot tell you at what figures they were purchased, but I think in some cases at face, and in other cases there may have been a write-down first to the market, and then they were sold at the market. I do not know the details of that.

Mr. PECORA. The day after you delivered this annual report to the stockholders you came to Washington to seek relief from the Reconstruction Finance Corporation, didn't you?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Do you recall the picture that you painted to the R.F.C. of the condition of the banking units of the group?

Mr. KANZLER. Yes, sir.

Mr. PECORA. What was that picture?

Mr. KANZLER. May I make a statement on that?

Mr. PECORA. I am asking you what that picture was.

Mr. KANZLER. I have a statement here I should like to read, if I may.

Mr. PECORA. Before you read it suppose I read to you from the minutes of the Reconstruction Finance Corporation, what they say concerning the statement you made to the R.F.C. last January.

Mr. KANZLER. Yes, sir.

Mr. PECORA. You are reported to have said to them:

> Mr. Kanzler stated that $20,500,000 would be required to liquidate the deposits of the Union Guardian Trust Co. of Detroit, but that the assets which they could offer as security for such loan would have a face value of only about 6 million dollars. He said that in those circumstances if the necessary aid could not be obtained from the corporation——

Mr. KANZLER (interposing). May I ask you what date was that?

Mr. PECORA. February 6, 1933.

Mr. KANZLER. That was not the next day, then.

Mr. PECORA. Well, it was——

Mr. KANZLER (continuing). And that was, Mr. Pecora, after Mr. McKee had come to Detroit and had looked over all our figures,

and had given us that additional information I am now reporting on in that report to the R.F.C. In other words, there was an examination made by the R.F.C., and that is their opinion.

Mr. PECORA. Well, you say it was their opinion. It is given here as a statement or summary of the statement which you made to the board of the R.F.C.

Mr. KANZLER. And which I made after Mr. McKee and a corps of about 15 assistants had been in Detroit appraising the assets and telling us what they thought qualified as assets, and what they thought they could accept as additional collateral for this loan that we were asking.

Mr. PECORA. Then the information which you had on January 24, 1933, when you made this annual report to the stockholders of the Group, was not, apparently, complete; was it?

Mr. KANZLER. Well, it did not compare with the information and the position which the R.F.C. took about those assets which I was reporting on in the statement you are reading.

Mr. PECORA. Very well; which was the truer picture, the one you presented to the stockholders on January 24 last as a result of the information, facts, and figures that had been given to you by the employees or officers of the group, or the picture which you presented to the board of the R.F.C. on February 6 last when you were seeking financial assistance?

Mr. KANZLER. I cannot tell today which was the truer picture. There was a corps of people inspecting the assets, and there was a difference of opinion, and whose opinion today is correct I do not know.

Mr. PECORA. You do not know today?

Mr. KANZLER. No; and I do not think anybody else knows today, just exactly what those assets were worth. They would have to be appraised by a rule of reason.

Mr. PECORA. Let me continue reading from the minutes of the R.F.C. of February 6, 1933, at which meeting you appeared in support of your application for relief for the unit banks——

Mr. KANZLER (interposing). Now, that happened substantially after the event where you suggested I made those remarks. In other words, that did not happen the day after I went to Washington.

Mr. PECORA. It happened within 2 weeks afterwards; didn't it?

Mr. KANZLER. It happened after a great deal had transpired. Things were moving very fast then. And I should like very much, if I may, to read the statement I have here as to——

Mr. PECORA (interposing). Well, let me read this statement that you made to the board of the R.F.C. on February 6, last, and then you can read whatever statement you desire.

Mr. KANZLER. All right.

Mr. PECORA. I will start again, at the beginning:

> Mr. Kanzler stated that $20,500,000 would be required to liquidate the deposits of the Union Guardian Trust Co. of Detroit, but that the assets which they could offer as security for such loan would have a face value—

But not market value—

> of only about 6 million dollars. He said that in those circumstances if the necessary aid could not be obtained from the Corporation, he and his associates felt that there would be no course open except to close the Union Guardian Trust Co. This action, he said, would result in the collapse of the entire Guardian

group, as well as every banking institution throughout the State of Michigan, thus endangering the State's entire financial structure, and seriously affecting that of other States.

Mr. Kanzler said that there were some 900 million dollars of deposits in all banks of the 16 communities in which members of the Guardian group operated, and that since the Guardian group members were in a more liquid condition than other banks of those communities, he did not see how any of the other banks could avoid closing, in event of the collapse of the Guardian group, in those communities; how, in fact, any bank in the State of Michigan could continue to operate.

He said that in his opinion it would not be feasible to induce depositors to subordinate their claims during the life of a loan by the Corporation, if made, with the exception possibly of a few of the larger customers of the Guardian group, including the Ford Motor Co. In connection with the deposits of this company, totaling about 30 million dollars in the various member banks of the Guardian group. However, Mr. Kanzler said that not only had Henry Ford within the past 3 years aided the group to the extent of about 16 million dollars, but he felt that he had done enough. But that they would be obliged to go to Mr. Ford again to assist in raising the 5 million dollars of new capital for the proposed mortgage company.

Mr. Kanzler said that it would be impossible in his opinion to obtain this 5 million dollars advance from Mr. Ford if the deposits of the Ford Motor Co. in the Guardian Group banks were frozen.

Mr. Kanzler admitted that there was a considerable gap between the value of the collateral which could be pledged and the amount of the loan desired, but said that the Guardian group situation involved imminent danger of financial disaster of major proportions affecting the State of Michigan and the country at large, and that he and his associates, feeling that if possible something should be done to avert this, had decided to lay the circumstances before the board of directors of this Corporation.

Now, that is a picture which is vastly different from the one presented in the annual report which you read to the stockholders about 2 weeks before, isn't it?

Mr. KANZLER. No, sir; I don't think it is.

Mr. PECORA. You think it is the same thing?

Mr. KANZLER. Well, there is a difference in the matter of time, and there is a difference——

Mr. PECORA (interposing). Two weeks' time is the difference there.

Mr. KANZLER. And during that 2 weeks' time there was a difference of appraisal, and a difference of expectation of what help we could get from the R.F.C. Now, may I read this statement?

Mr. PECORA. Who prepared the statement you want to read?

Mr. KANZLER. I did; in conjunction with my attorney.

Mr. PECORA. What is his name?

Mr. KANZLER. Mr. Gust.

Mr. PECORA. Have you copy of it?

Mr. KANZLER. Yes, sir.

Mr. PECORA. I should like to have a copy as I want to follow you.

Mr. KANZLER. All right. Here is a copy.

Mr. PECORA. You may go ahead.

Mr. KANZLER. It might appear that certain remarks made to the stockholders at the annual meeting and the preliminary draft of the annual report in preparation for sending to stockholders seem to be inconsistent with statements contained in the Reconstruction Finance Corporation application. They are not inconsistent. To fairly understand these matters requires a careful analysis of their purpose and of the situation governing as of the time they were made. In order that this committee may be fully and fairly informed as to the facts, I have prepared a short statement which I ask the privilege of reading [reading]:

The period was the latter part of January 1933. The annual meeting under the bylaws was set for the last week in January. As chairman of the board of directors of the Guardian Detroit Union Group, I was called upon to preside at that meeting and to report to the stockholders as to the operations of the group during the preceding year. In order to make this report, I was furnished with the data and operating figures to submit to the stockholders. At the same time, I also tried to do everything that I could to assist the units of the group to obtain a loan from the Reconstruction Finance Corporation, and with Mr. Leyburn, the chief national bank examiner, I actively participated in those negotiations.

Our first duty was to the depositors. It was imperative that these banks and trust companies be kept open if the interests of the depositors were to be protected.

We were also expected to apprise the stockholders at the annual meeting of the results of the preceding year. The fact is that under most trying conditions, splendid work has been done during the year in liquidating loans and in effecting economies. Many of the units of our group were able to function in the communities in which they were located better than competing banks in those communities. In the aggregate the units of the group had earnings to report before reserves.

These items are usually commented upon at such meetings.

The stockholders were advised that additional substantial reserves of ssveral millions had then been set aside out of earnings, recoveries, and capital funds of the various units to meet contingencies. The stockholders were also advised of an additional reserve of $5,000,000 for contingencies not determinable at that time but which the management deemed it prudent to create. The remarks to the stockholders at the annual meeting, considered in the light of our duty as we saw it at that time, and as we see it now, were the proper remarks to make.

At that time it was realized that the Union Guardian Trust Co. presented a serious problem, although the trust company still had an uncalled for part of a commitment of approximately $6,000,000 from the Reconstruction Finance Corporation. Its statement published on December 31, 1932 showed bills payable of $9,478,000. It was also generally published in the press that the trust company had borrowed from the Reconstruction Finance Corporation. Over the preceding 2 years it had liquidated its deposit liabilities to the extent of nearly $20,000,000, or approximately 40 percent. Many of its assets were real-estate assets and mortgages.

The Union Guardian Trust Co. was the oldest trust company in Michigan. Its past record of earnings was outstanding. We believed, and we had every reason to believe, at the time of the stockholders' meeting, that the new application we were then making to the Reconstruction Finance Corporation would be granted. These additional funds were not only for the trust company to liquidate its banking business entirely, but also to place all the institutions in the Group on such an unquestionable, liquid and sound basis that their continuance would be assured.

At that time, and for 2 weeks prior thereto, we had been in conference with Mr. Leyburn, chief examiner for the seventh district, with a view to obtaining from the Reconstruction Finance Corporation a

loan on the slower assets of some units of the Group for the purpose of making certain that under even the most stressing cirsumstances that might develop, all of these units could continue their operations and preserve and protect the deposits of their thousands of depositors throughout the State. The trust company was to be taken out of the banking business entirely and its real estate was to be gradually liquidated and its future business was to be strictly and solely that of a trust and fiduciary company and nothing more.

In preparing this application to the Reconstruction Finance Corporation, Mr. Leyburn cooperated with us. In fact, the plant presented was as much Mr. Leyburn's as it was ours. He personally participated in all conferences we had with the Reconstruction Finance Corporation and in our presence advocated the plan. He advised us that in presenting his own views to the Reconstruction Finance Corporation Board in private session without presence on February 7, he strongly recommended the plan. In setting up this application and in selecting the type of security to be offered, we were also counseled by Governor Talley, head of the bank division of the Reconstruction Finance Corporation in Washington. We had available more liquid assets as collateral to the loan, but at the time of our first visit to the Reconstruction Finance Corporation, we were advised to select and offer the slower, nonliquid type of collateral, so that after the loan had been granted, there would remain in the units, substantial further capacity to develop additional liquidity if necessary, through the regular means of the Federal Reserve and correspondent banks.

At the time of the stockholders' meeting, we had also observed the assistance rendered by the Reconstruction Finance Corporation to other banks and trust companies. We believed that the Reconstruction Finance Corporation, organized for the purpose of rendering the assistance that was being asked, would be ready and willing to come forward with such an advance when our application was formally acted upon. Up to that time our banks, and, in fact, all of the banks in the State of Michigan, had sought comparatively little help from the Reconstruction Finance Corporation, considering the total amount of the deposits in the banks in Michigan as compared to the total deposits in any other section of the country, or the country as a whole. The banks in the State of Michigan had, I believe, received only a very small percentage of aid from the Reconstruction Finance Corporation compared to that given to banks throughout the United States.

We believed then, and we believe now, that the loan should have been granted. The application to the Reconstruction Finance Corporation speaks for itself. We were preparing for every future contingency. The potential seriousness of the nonliquid condition of the Union Guardian Trust Co. could not be overemphasized to the Reconstruction Finance Corporation. If future events should cause the trust company to exhaust its liquid funds, we were fearful that without the proper help at that time there would be "runs" on the other banks, and unless assistance was immediately forthcoming the banking system of the State of Michigan, and perhaps of the entire country, would be paralyzed.

Prior to this time, directors had given most generously of their own funds to strengthen the liquid position of the unit banks. Moreover, the application to the Reconstruction Finance Corporation included, if necessary, the subordination of up to 7½ million dollars

of deposits in the trust company, and additional group-owned assets, so that all the remaining deposits in the trust company could be paid in full from the proceeds of this loan.

The board of the Reconstruction Finance Corporation was willing to lend 37½ million dollars, but 43½ million dollars was necessary.

Six million dollars would have kept these institutions from closing. As a result of closing them, the added welfare contributions required from the Reconstruction Finance Corporation and the loss of income from the State of Michigan alone, to say nothing of the direct loss to the Government due to the closing, will amount to many, many times more than that 6 million dollars. Nine of our former units have been reopened and are doing business.

Mr. PECORA. You say in your prepared statement "are doing business 100 percent."

Mr. KANZLER. I am sorry.

Mr. PECORA. Do you want to eliminate that 100 percent?

Mr. KANZLER. Nine of our former units have been reopened and are doing business 100 percent. I would venture to say that no national bank in the United States being liquidated by a receiver at this time has made a showing comparable with that of the Guardian National Bank of Commerce, the largest unit. These facts, together with the results of the liquidation of other units even under the adverse circumstances of receiverships, offer positive proof of the soundness of our view of the situation at the time of our application. That this loan was not granted, to my way of thinking, is a great tragedy.

In conclusion, therefore, let us say that if you review the remarks made at the stockholders' meeting, and the application made to the Reconstruction Finance Corporation, which was prepared about the same time and revised shortly thereafter, in the light of the conditions as they then existed, I believe that you will find the statements in both of them fully justified by the facts.

My own confidence in the situation is best indicated by the fact that from January 24, 1933, the date of the stockholders' meeting, to February 11, 1933, the last day the Guardian National Bank of Commerce was open for business, deposits of companies of which I am president, increased $2,095,000.

Mr. PECORA. When did you prepare this statement?

Mr. KANZLER. In my office.

Mr. PECORA. When?

Mr. KANZLER. Since I was here the last time, I mean in Washington.

Senator COUZENS. That was about December 23 or 22, wasn't it?

Mr. KANZLER. Yes, sir; I think so.

Mr. PECORA. When you prepared this statement did you anticipate that you were going to be questioned about the annual report you made to the stockholders of the group on January 24 last, and the statement that you made to the Board of the Reconstruction Finance Corporation 2 weeks later?

I began to see that we were not going to be able to express and portray the conditions under which we were then operating, and I felt—when I say, we were not going to be able to, I mean, speaking extemporaneously on the witness chair, and I felt that I ought to

prepare what the facts were so that they would be considered in an orderly manner.

Mr. PECORA. When you prepared this statement was there some apprehension in your mind that anyone comparing your annual report to stockholders of January 24 last with the statement you made on February 6, last, to the Reconstruction Finance Corporation, would find an inconsistency between them?

Mr. KANZLER. No, sir; I thought it would be a reasonable question that would come up.

Mr. PECORA. Did you anticipate that anyone reading those two statements would find an inconsistency therein?

Mr. KANZLER. No; I thought that the position should be explained.

Mr. PECORA. At the very outset of this prepared statement which you have just read into the record you say:

> It might appear that certain remarks made to the stockholders at the annual meeting and the preliminary draft of the annual report in preparation for sending to stockholders seem to be inconsistent with statements contained in the Reconstruction Finance Corporation application.

So apparently you did fear that somebody, in comparing the two statements, might see an inconsistency between them.

Mr. KANZLER. I thought that somebody not fully familiar with the facts might think that there was an inconsistency.

Mr. PECORA. Do you say there is no inconsistency?

Mr. KANZLER. I am satisfied that there is not.

Mr. PECORA. No inconsistency in saying to the stockholders of the Group, for instance, among other things, that "The year 1932 was a year of notable improvement on the subject of the safety of funds which our depositors have intrusted to us"; or in saying that "Despite the generally depressed business conditions which prevailed, no less than \$100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against deposit liabilities of \$290,000,000"; or in saying, "While bettering their liquid position our banks have at all times sought to render constructive, helpful service", and so forth; or in saying, "Actual results, however, have developed an understanding in many quarters of the effectiveness of group banking as conducted and have made for our units many new friends and an enhanced reputation"?

Mr. KANZLER. Mr. Pecora, I cannot recall all of the details of that situation, but——

Mr. PECORA. I am reading to you certain extracts from your report to the stockholders.

Mr. KANZLER. Yes.

Mr. PECORA. You say that is not inconsistent with the statement to the Reconstruction Finance Corporation, in saying to the Reconstruction Finance Corporation Board on February 6, last, that \$20,500,000 would be required to liquidate deposits of the Union Guardian Trust Co. of Detroit but that the assets which they could offer as security for such loan would have a face value of only about \$6,000,000?

Mr. KANZLER. Mr. Pecora, that is after the R.F.C. with a corps of 15 men had been working day and night over these assets. There were 10 or 12 million of assets that the R.F.C. never looked at. It was this \$6,000,000 that they said qualified and there were 12 million

of assets besides. What we were doing in that case was taking the Trust Co. entirely out of the banking business. That was the deposit liability of the Trust Co.

Senator COUZENS. You say the R.F.C. examiners did not examine the other 11 or 12 million dollars?

Mr. KANZLER. Did I say they did not examine it?

Senator COUZENS. Yes.

Mr. KANZLER. I misspoke myself. They did not accept it. It did not qualify under their various rules which I do not know. I think some of them were advances to trusts and things of that kind. They were receivables.

Senator COUZENS. Do you say now that they did qualify?

Mr. KANZLER. No: I say they did not qualify under the rules of the R.F.C.; but that does not mean that they were not assets.

Senator COUZENS. But I mean, do you think that they did qualify?

Mr. KANZLER. I think Mr. McKee was a capable man, and when his examiners decided they did not qualify, they probably did not qualify.

Mr. PECORA. According to the minutes of the meeting of the board of the R.F.C. on February 6, last, you admitted that there was a considerable gap between the value of the collateral which could be pledged and the amount of the loan desired.

Mr. KANZLER. That is somebody else's language.

Mr. PECORA. Did you not say anything like that in words or substance?

Mr. KANZLER. The only thing that I know is the facts——

Mr. PECORA. Did you say anything like that in words or in substance?

Mr. KANZLER. That there is a gap?

Mr. PECORA. A considerable gap?

Mr. KANZLER. I do not know whether I said that or not.

Mr. PECORA. A considerable gap between the value of the collateral which could be pledged and the amount of the loan desired?

Mr. KANZLER. I do not know whether I said that. That is not my language. I don't know who said that. I can state the facts, if you are interested in them, Mr. Pecora.

Senator COUZENS. I am curious to know how that got into the minutes of the Reconstruction Finance Corporporation if you did not say it.

Mr. KANZLER. Well, I can't tell you that. I can tell you the facts, which are very clear, and they are right in this application which I just read.

Mr. PECORA. Did you say this, in words or substance, to the Board of the Reconstruction Finance Corporation on February 6, last [reading]?

> Mr. Kanzler stated that they would be willing to proceed along that line despite the fact that they had been fearful of laying the situation before even a few of the largest corporation depositors or the directors of the Union Guardian Trust Co. because of the danger of knowledge of the situation spreading with resultant withdrawals of deposits.

Did you say anything like that to the R.F.C. last February?

Mr. KANZLER. After the R.F.C. examiners were in Detroit and they appraised the assets on that basis and we were being asked to secure subordination, it was in reply to that, if any such statement

was made, namely, that we could not go to the national corporations which had deposits in the Union Guardian Trust Co., which also had deposits in our various units of the bank, and say, "Will you please subordinate some of these deposits, because if we get enough maybe we can get an R.F.C. loan." I think that would have been a very dangerous situation, and we did not dare to do it.

Senator COUZENS. Who were present at the meeting when you were alleged to have made the statement?

Mr. KANZLER. I think the whole board, Senator Couzens—Mr. Leyburn, Mr. McKee, Mr. Longley——

Mr. PECORA. Who was Mr. McKee?

Mr. KANZLER. In the absence of Governor Tally, who was ill, Mr. McKee was in charge of bank loans for the R.F.C.; and Governor Tally thought that this was so important that he immediately sent Mr. McKee, who returned with us the day after we were in Washington, and he came to Detroit on a Saturday and we worked incessantly about 18 hours a day preparing these schedules; that is, the scheduling was under the supervision of some of the active officers of the institution.

Senator COUZENS. Who else was at the meeting?

Mr. KANZLER. I think, Senator Pomerene, Ogden Mills, Judge McCarthy, Mr. Miller, president of the Reconstruction Finance Corporation; and there was a rather long table, and on both sides of it there was a group of individuals whose names I do not recall.

Senator COUZENS. Who took down the record of your statements? Do you know?

Mr. KANZLER. I have no idea.

The CHAIRMAN. As a matter of fact, there was a gap in the amount of the loans and securities, was there not?

Mr. KANZLER. The gap was the $6,000,000, Senator Fletcher, that we were asked to provide.

Mr. PECORA. What was the loan that you asked for—$65,000,000, was it not?

Mr. KANZLER. I think we asked for an additional $48,000,000 or $49,000,000, and that involved all the banks and trust companies in the State, and that was done——

Mr. PECORA. You asked for a total of $65,000,000, did you not?

Mr. KANZLER. No; $14,000,000 had already been granted, so we asked for the difference between the two.

The CHAIRMAN. What was the total amount you asked for?

Mr. PECORA. In other words, what was the total that you had received and what did you ask for additionally?

Mr. KANZLER. We asked for approximately $50,000,000 additional. We had approximately $15,000,000 at the time.

Mr. PECORA. So this figure of $65,000,000 is accurate, is it not?

Mr. KANZLER. Yes. I do not want to quibble about that. Incidentally in that connection we were told by Governor Tally, "If you are going to make a loan of this size or anywhere near this size"—this was when we were down in the first instance—he said—

> Be sure that you ask for a sufficient amount of money, because we would be very unhappy if we thought there should be relief given to those 24 banks and trust companies and should find that you did not do this thing adequately and should find that we failed in our purpose.

And he suggested that we be sure that we asked for enough.

The CHAIRMAN. You had got $14,000,000?

Mr. KANZLER. $14,000,000 for the trust company had been previously committed for.

The CHAIRMAN. It had not been received?

Mr. KANZLER. No, sir.

The CHAIRMAN. And you never did receive it?

Mr. KANZLER. No, sir; never did receive it all.

Senator COUZENS. How much of it did you receive—about $11,000,000, was it not?

Mr. KANZLER. Finally, I think about $11,000,000, Senator; I don't remember. We did not sleep days or nights, and some of those figures I do not recall.

Mr. PECORA. Did you state to the Reconstruction Finance Corporation Board on February 6, last, that Mr. Henry Ford had helped the group out in the preceding three years to the extent of about $16,000,000?

Mr. KANZLER. No, sir.

Mr. PECORA. Did you say anything like that?

Mr. KANZLER. Oh, yes; something very much like it. I said Mr. Edsel Ford had loaned collateral and loaned some cash and had signed his name to some notes.

Mr. PECORA. Did you say in substance to the Reconstruction Finance Corporation Board last February 6, "In connection with the deposits of this company"——

That is, the Ford Motor Co.

> Totaling about $30,000,000 in the various member banks of the Guardian Group, Mr. Kanzler stated that not only had Mr. Henry Ford in the past 3 years aided the Group to the extent of about $16,000,000 and felt that he had done enough, but they would be obliged to go to Mr. Ford again to assist in raising $5,000,000 of new capital for the proposed mortgage company. Mr. Kanzler stated it would be impossible, in his opinion, to obtain this $5,000,000 advance from Mr. Ford if the deposits of the Ford Motor Co. in the Guardian Group of banks were frozen.

Mr. KANZLER. I think that is a natural error for somebody reporting to make that "Henry Ford." That meant the Ford interests.

Mr. PECORA. In all other respects did you in substance say what I have read to you?

Mr. KANZLER. That we could not go back to him for more, or that he had given that specific sum?

Mr. PECORA. That he had given you $16,000,000.

Mr. KANZLER. I do not recall that figure, and I do not believe it compares with the figures I have. I have in mind it was a loan of $5,000,000 worth of bonds, a loan of $1,000,000, the signing of a note of 2½ million. That would be about 8½ million. And taking a note of 3½ million. That would be about 12 million. It would be about 12 million dollars, as I recall it now.

Mr. PECORA. Had the Ford interests, whether represented by either Henry Ford or Edsel Ford, separately or jointly, come to the relief of the Group in the preceding 3 years to the extent of $12,000,000 or thereabouts?

Mr. KANZLER. Yes, sir. I did not want to be misunderstood. That was not a gift; that was in the way of providing liquidity.

Mr. PECORA. Was it in the way of a loan or what? It was given in what form?

Mr. KANZLER. Yes; a loan of securities, or the lending of a name for endorsement, or something of that nature.

Mr. PECORA. In the annual reports to the stockholders for the years 1929, 1930, and 1931 which have been received in evidence before this committee heretofore, and in the annual report for the year 1932 which you delivered to the stockholders and which was put in evidence this afternoon in connection with your testimony, was there any mention made anywhere of the condition of the group at any time existing during those years which required this kind of assistance from the Ford interests or from anybody else?

Mr. KANZLER. I recall that in previous annual reports I think the statement was made about borrowing 7½ million dollars to take out undesirable assets, to lift out assets from banks; also 7½ million dollars in working out an orderly liquidation of the securities companies.

Mr. PECORA. Have you a recollection of any such information being embodied in any of the annual reports issued to the stockholders of the group?

Mr. KANZLER. I think so.

Mr. PECORA. You are not sure of it, yourself, are you?

Mr. KANZLER. I have not seen some of them for some time, and I would not want to——

Mr. PECORA. By the way: Did you have anything to do with the preparation of those annual reports for the years 1929, 1930, and 1931 as well as for the year 1932?

Mr. KANZLER. I may have changed some of the verbiage here and there. I think I was consulted about it. I did not sit down and work the thing through, but I think I saw some of the text of it from time to time.

The CHAIRMAN. When was this $12,000,000 of assistance extended?

Mr. KANZLER. I think the Guardian Detroit Co. got a loan for its securities. That was not extended to the Group. That was extended to the Guardian Detroit Co. I think that was at the end of 1930. And then Mr. Mott and Mr. Ford endorsed in 1931, and the last assistance was given in December, I think, of 1932.

The CHAIRMAN. Were any of these paid back?

Mr. KANZLER. No, sir.

The CHAIRMAN. In 1932, in your report, did you advise the stockholders of that?

Mr. KANZLER. Yes, sir. That would be in the consolidated balance sheet.

Mr. PECORA. Which was never sent out?

Mr. KANZLER. That was never sent out.

Mr. PECORA. Then you did not advise the stockholders of that fact?

Mr. KANZLER. The annual report that would have been sent out would have included it, and it was approved by the executive committee.

Mr. PECORA. But you did not actually give out that information?

Mr. KANZLER. That was not an annual report. Those were remarks to stockholders.

Mr. PECORA. You say it was remarks to stockholders. Was it not regarded as the annual report? Was not a motion made and unanimously carried that the report which you now say was remarks

to stockholders should be placed on file and printed and mailed to all of the stockholders of record?

Mr. KANZLER. Yes, but I could not put my extemporaneous remarks on file. I had not reported the balance sheet, and it certainly went with an annual report. We did have a tentative form of the annual report which went to the executive committee and which they approved. I have a copy here if you would like to see it.

Mr. PECORA. I would like to see it. In fact, I would like to offer it in evidence.

Senator COUZENS. Did I understand you to say that Mr. Edsel Ford put up $5,000,000 of his own securities?

Mr. KANZLER. Yes, sir.

Senator COUZENS. What was the nature of the securities?

Mr. KANZLER. I think they were city of Detroit bonds.

Senator COUZENS. With whom did he put them up?

Mr. KANZLER. I did not have anything to do with the transaction, so I cannot give you the details; but I am inclined to believe it was with the Guardian Detroit Co.

Senator COUZENS. What did they use them for?

Mr. KANZLER. For collateral on their loans.

Senator COUZENS. From whom?

Mr. KANLZER. I am not certain about that; I think it was the Bankers Trust Co.

Senator COUZENS. Of New York?

Mr. KANZLER. Yes, sir.

Senator COUZENS. Are they still there?

Mr. KANZLER. I do not know. I am inclined to think not.

Senator COUZENS. Do you think the Trust Co. has paid lff?

Mr. KANZLER. Yes, sir.

Senator COUZENS. And Mr. Ford got his securities back again?

Mr. KANZLER. I cannot tell you, Senator Couzens. I had better not endeavor to answer that question, because I do not know.

Mr. PECORA. I offer in evidence the document produced by the witness as the contemplated annual report or the tentative report——

Mr. KANZLER. It was a draft for discussion.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Mimeographed copy of document addressed to the stockholders, Guardian Detroit Union Group, produced by the witness, was received in evidence, marked "Committee Exhibit No. 64, Jan. 4, 1934, and will be found printed in full at the end of today's record.)

Mr. PECORA. Do you recall having attended a meeting of the executive committee of the board of directors of the group on January 20, 1933, 4 days before the stockholders' meeting?

Mr. KANZLER. Yes, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of the minute book of the executive committee of the board of directors of the Guardian Detroit Union Group, Inc., including minutes of the meeting of the executive committee held on January 20, 1933, beginning at page 185. Will you look particularly at the page of those minutes of that meeting entitled "Consolidated Statement of Earnings and Expenses", and tell us what the last row of figures on that page represents?

Mr. KANZLER. The last row down this way [indicating]?

Mr. PECORA. The bottom row. What do those figures represent?

Mr. KANZLER. It is headed "Current Period Profits" for the month of December 1932, month of November 1932, month of December 1931, and for the period to date for the year 1932 and the period to date for the year 1931.

Mr. PECORA. For the period to date for the year 1932 what is the figure?

Mr. KANZLER. The figure shows $1,798,069.

Mr. PECORA. In the red or black?

Mr. KANZLER. There is an "R" behind it—red, I presume.

Mr. PECORA. What does that indicate?

Mr. KANZLER. I would say that indicates a method of compiling the profit for the year 1932 in the red.

Mr. PECORA. A profit in the red?

Mr. KANZLER. A profit or loss figure, which shows in the red.

Mr. PECORA. What was the amount of the figure for the year 1932 as there indicated?

Mr. KANZLER. $1,798,469.

Mr. PECORA. You were present at that meeting of the executive committee of the board held on January 20 last, were you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And you presided over the meeting of the stockholders held 4 days later?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Did you make any mention at all in any statement made to the stockholders of that figure?

Mr. KANZLER. I would have to examine it to find how it was arrived at. I do not recall seeing this particular statement.

Mr. PECORA. It was presented to the meeting of the executive committee of the board on January 20, was it not?

Mr. KANZLER. Well, the very next statement shows——

Mr. PECORA. Please confine yourself to my question and not to something else.

Mr. KANZLER. I do not recall whether it was or not. I presume it was, but I don't remember seeing any such figure.

Mr. PECORA. You see it now, do you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. You do not doubt the authenticity of it, do you?

Mr. KANZLER. I think it would have to be explained before you would understand it.

Mr. PECORA. You do not want me to explain it, do you?

Mr. KANZLER. Maybe if I have time I might be able to explain it.

Mr. PECORA. Can you explain it now?

Mr. KANZLER. May I take a look at this?

Mr. PECORA. Surely.

Mr. KANZLER. I think this shows a comparison of figures with other years on a different system of accrual.

Mr. PECORA. I am afraid I do not understand that. Will you enlighten me a little bit further?

Mr. KANZLER. I think this is the basis of conducting the banking books—I am presuming now—on what would be termed a cash basis instead of on an accrual basis, and this was gotten up for purposes of comparison.

Mr. PECORA. With what?

Mr. Kanzler. With preceding years where they adopted a different method of accounting.

Mr. Pecora. How many methods of accounting did this group adopt at one and the same time?

Mr. Kanzler. I presume, only one at a time.

Mr. Pecora. Did it adopt one method of accounting for the purpose of informing the executive committee of the board of directors, another method of accounting for the purpose of advising the whole board of directors, and a third method of accounting for the purpose of advising the stockholders?

Mr. Kanzler. I will answer that definitely, no. They had one method of accounting for reporting to the group executive, for the Group directors, and for the stockholders.

Mr. Pecora. Why, then, do you say that this is a loss according to a certain method of accounting for the purpose of comparing it with the result that would be obtained according to some other method of accounting?

Mr. Kanzler. I think that must be simply a reconciliation of figures to a different method of accounting which prevailed in previous years.

Mr. Pecora. Let me ask you again: Were there different methods of accounting employed by this group?

Mr. Kanzler. Oh, certainly. Accounting methods change from time to time.

Mr. Pecora. And did each one of those methods produce a different result from the others?

Mr. Kanzler. They are bound to produce a different result.

Mr. Pecora. The method presented to the executive committee meeting on January 20 last showed a loss of over $1,700,000 for that year, did it not?

Mr. Kanzler. No, sir; because on the very method that was presented there, a page or two over, it shows the method by which the books were kept, and that showed——

Mr. Pecora. Just confine yourself to the page from which you read that figure of $1,700,000-odd and which you said represented a "profit in the red", which really means a loss.

Mr. Kanzler. Now you are picking me up when I misspoke myself. This figure is a reconciliation figure to some other method of accounting.

Mr. Pecora. Why were different methods of accounting used to produce different results?

Mr. Kanzler. Because conditions were changing all the time, and the banking business was conducted on a different basis.

Mr. Pecora. As conditions changed was a different method of accounting adopted by the group?

Mr. Kanzler. Yes, sir.

Mr. Pecora. How frequently did a change of condition require the adoption of a different method of accounting?

Mr. Kanzler. I am only aware of one change.

Mr. Pecora. When was that change effected?

Mr. Kanzler. That was made in the fall of 1932.

Mr. Pecora. What happened in the fall of 1932 that necessitated that change of accounting method?

Mr. KANZLER. In the fall of 1932 the banks were told that it was patriotic not to foreclose on mortgages. The Comptroller issued instructions to receivers not to foreclose on mortgages; and Mr. Fort said that homes were the very life and essence of our civilization, and as long as the mortgages would be ultimately paid off, the banks should do everything within their power to go along and let people live in their homes, provided ultimately the mortgages were going to be paid. As a result of that there were some interest payments which were considered absolutely good on items which the bank examiner considered good and which were considered as a receivable, and that receivable was accrued and that accrual was considered as income. I think that was the change that you refer to.

Mr. PECORA. What was the actual situation? Which method of accounting gave a truer picture, the one that showed the loss of $1,700,000 odd, or the other one?

Mr. KANZLER. I think the one that showed the receivables showed the true picture. The accrual method of accounting, I think, is sound, and it is one that I think is generally used, and I think as far as I understand from the accounting experts, that is the logical way to keep your books in the banking business.

Mr. PECORA. Under that method of accounting, would the loss of $1,700,000 odd have been shown?

Mr. KANZLER. No.

Mr. PECORA. A profit would have been shown?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Forming part of the minutes of the executive committee of January 20 last is another statement entitled "Consolidated Statement of Earnings and Expenses for the Year 1932", and the total of all group members, in the column entitled "Profits available for dividends" appears as the figure $1,422,935, and then the letter "R" after that, which indicates "In the red"—a profit in the red.

Mr. KANZLER. May I see that statement?

Mr. PECORA. Yes, sir (handing paper to the witness). It is the last column, the total at the bottom.

Mr. KANZLER. That, Mr. Pecora, is because there were reserves set up against all receivables until collected, and at that time the group company was not paying any dividends, and we decided that until we received that money, we would not think of paying any dividends until collected and therefore that was given that sort of a heading. That simply means that we were all adopting among ourselves as conservative a point of view as possible; that we would keep in our mind that anything, though we considered it a sound receivable—until we had received it, we would not think of dividends at the same time.

Mr. PECORA. Was that information confined only for the use of the members of the executive committee of the board?

Mr. KANZLER. No, sir; also the directors of the Group.

Mr. PECORA. How about the stockholders? Were they ever permitted to know anything about the result that system of accounting would show?

Mr. KANZLER. This is an operating statement, and I do not think one usually burdens the stockholders with operating statements.

Mr. PECORA. You did it in your annual reports, did you not, for the years 1929, 1930, and 1931, the printed annual reports?

Mr. KANZLER. Not this kind of statement.

Mr. PECORA. I know not that kind, but you did give operating statements, did you not, in your preceding annual reports?

Mr. KANZLER. That was quite a long time before I had anything to do with the reports, and I just followed the form of the preceding report, and this kind of report certainly has no place in a stockholder's report.

Mr. PECORA. Is the information there accurate information?

Mr. KANZLER. Yes, sir; it is accurate. It shows a profit of $2,900,000 before extraordinary income and expenses, and before reserves.

Mr. PECORA. What does it show as a profit or deficit after deductions?

Mr. KANZLER. After deductions it would show a red figure.

Mr. PECORA. A red figure.

Mr. KANZLER. After deduction of reserves

Mr. PECORA. Of how much?

Mr. KANZLER. $1,422,000, after deduction of reserves.

Mr. PECORA. Which set of figures were the stockholders permitted to obtain?

Mr. KANZLER. The stockholders were given the net income figures.

Mr. PECORA. Which set—before deduction for reserves?

Mr. KANZLER. Before reserves.

Mr. PECORA. And that was giving them a true picture of the financial condition, was it?

Mr. KANZLER. Yes, sir. That is the income before reserves.

Mr. PECORA. Do you think that is sound?

Mr. KANZLER. I do think it is sound.

Mr. PECORA. Why were the members of the executive committee, then, given this additional information?

Mr. KANZLER. The members of the executive committee get a lot of detailed information that is not put out in an annual report.

Mr. PECORA. Why were they given this information while it was being withheld from the stockholders?

Mr. KANZLER. It was an operating problem. The fact that these reserves were set up would give you an idea as to what extent they were allowing interest to become delinquent. It was a policy in the bank, when an individual came in to pay a note, and to pay his interest—he was told no, that a renewal could not be had unless he also was prepared to make a reduction of his principal. That was a policy to effect and assist in liquidation. As a result of that, there was quite a bit of discussion between the borrower and the bank officer handling the account, which forced many of these loans past due, but that did not mean that past due interest was not collectable interest, and that was accrued. Incidentally, this whole accrual system was put up to Mr. Leyburn, and he specifically approved it.

Mr. PECORA. Mr. Kanzler, at all stockholders' meetings prior to the one held on January 24, 1933, the annual report actually printed and mailed to the stockholders for the preceding calendar year was set up in printed form and available at the annual meetings, was it not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Why was it not done at the annual meeting held on January 24, last?

Mr. KANZLER. In the first place, the pressure on Detroit was something that it is pretty difficult to reproduce at this particular time.

Mr. PECORA. Would that pressure have anything to do with the ability of your accounting staff and other officers to get up their annual report, following the custom of all preceding years?

Mr. KANZLER. I was just beginning to tell you a little about this picture. This pressure was tremendous. We had this run in Port Huron that delayed things considerably. Besides that, we had been working day and night with Mr. Leyburn on a plan to provide for all future eventualities, and we had hoped that by February 4 or 5 or 8, we would be able also to include in our annual report a statement as to what had been done in connection with taking the trust company out of the banking business, and to liquefy all our institutions throughout the State.

Senator COUZENS. How did you arrive at these reserves that you set up, do you know?

Mr. KANZLER. I do not know personally, Senator Couzens. That is a matter for the technical operating staff of the bank, and I do not know that.

Senator COUZENS. You quote Mr. Leyburn, the former chief national bank examiner for the seventh district, as approving the adoption of the accrual system. It is my observation that in using this accrual system, they use it on loans which are in default, and which, in all probability, will not be paid. That obviously creates a padded earning, does it not?

Mr. KANZLER. If it is used on loans which in all probability will not be paid, it would not be sound.

Senator COUZENS. What I am trying to get at is this. Where would you draw the line in the use of the accrual system?

Mr. KANZLER. If you have an asset on your books which you can consider live, and on which you have not been paid your interest—in the case of a mortgage, for example, where the property should be worth the value of the loan plus the interest as it is accruing, and you are accruing past default, and considering it income, that is considered standard practice among all banks.

Senator COUZENS. When was that practice established?

Mr. KANZLER. I understand the Peoples Wayne County Bank always did that.

Senator COUZENS. When did you first do it?

Mr. KANZLER. I think it was done in November, in conjunction with the general trend throughout the country, and the statements from officials that we should not foreclose, and that we should be a little more lenient, and when our collection policy permitted loans to go delinquent, it was then thought that would be a more adequate and proper statement of the income.

Senator COUZENS. So, up to that time you did not use the accrual system?

Mr. KANZLER. We used the accrual system too——

Senator COUZENS. I was asking when you began the accrual system.

Mr. KANZLER. I think the accrual system—I think it would be better if some of the operating men were asked that question. I do

not know the exact date that was started, but I think it was—I am inclined to think the Guardian Detroit Bank had it back in 1927.

Mr. PECORA. Mr. Kanzler, you said a moment or two ago, in answer to questions as to the reason why the annual report was not actually set up and ready for the annual meeting of the stockholders held on January 24, last, that the Port Huron situation delayed you. Was that a serious situation?

Mr. KANZLER. Yes; it was very unpleasant.

Mr. PECORA. It affected your bank there?

Mr. KANZLER. Yes; very much so.

Mr. PECORA. Very much.

Mr. KANZLER. To the extent that we had a run, and they took a lot of their funds out, and funds finally started coming back again.

Mr. PECORA. Let me remind you how you treated that serious situation in the remarks you made to the annual meeting of the stockholders on January 24, last. I am reading from committee's exhibit no. 63 of this date [reading]:

> As was to be expected, the public in Port Huron became apprehensive as to the safety of their deposits. For a day or two even our own bank at Port Huron suffered withdrawals, These withdrawals have ceased, and funds which had been placed in safety deposit boxes by frightened customers have already begun to return to our bank.

That would not indicate a very serious situation—a run of a day or two—which should have delayed the preparation of your annual report to the stockholders, would it?

Mr. KANZLER. Yes; I think it does. I do not think that was the time when one should be over-emphasizing runs on banks all the time.

Mr. PECORA. No.

Mr. KANZLER. In other words, President Hoover told us it was patriotic to try to stop hoarding.

Mr. PECORA. I know.

Mr. KANZLER. And that was just as much in accordance with that program as anything else.

Mr. PECORA. When did this run of a day or two take place on the Port Huron bank?

Mr. KANZLER. I cannot give you exact dates. We were working day and night, and some of those dates mean very little to me.

Mr. PECORA. Don't you think a rather slighting reference was made in these remarks to the stockholders, as to that Port Huron situation if, as a matter of fact, it was as serious as you now tell us it was?

Mr. KANZLER. It is obvious that a run on a bank is something serious. You do not have to emphasize that to a stockholder.

Mr. PECORA. That is the situation which delayed the preparation of the annual report?

Mr. KANZLER. No. That was just one of the factors.

Mr. PECORA. It is the only one I recall you gave.

Mr. KANZLER. No. I was interrupted, I think, when I started to tell you about how we were working night and day, working out the problem involving the city's credit. I think I had made two trips to New York on that question. We were on the sleepers half the time. We were meeting with Mr. Sloane, Mr. Chrysler, Mr. Hutchinson, and the city officials, in an effort to put through a special act of the legislature to permit us to issue some bonds. Then we tried to get the industrialists of the city to agree to buy these bonds with the idea

that over the next 5 years they could use these bonds in paymen of taxes. Everything was crumbling at that time, and it is very difficult for us here, with hindsight, to understand what pressure we were under at that time.

Mr. PECORA. Will you look at Committee's Exhibit No. 63 and tell me in whose handwriting the lead-pencil notations on the last page thereof were made?

Mr. KANZLER. I know all about those. Those are my own notes, Mr. Pecora, and they were made when I thought there might be some hecklers at this meeting that might ask me some questions.

Mr. PECORA. Let us see what notes you made in anticipation of being heckled by stockholders. [Reading:]

1. Dividend.
2. Action of stock.
3. Double liability.
4. Book value.
5. Earnings after reserves.
6. Selling to employees.
7. Loans to officers.
8. Group Co. statement.
9. Difference between 2.6 and 1.3.

Mr. KANZLER. That was $2,600,000 and $1,300,000.

Mr. PECORA (continuing reading):

10. Are they progressing?
11. Reconstruction Finance Corporation.

Had any stockholders heckled you on the matter of double liability, what were you prepared to say to them?

Mr. KANZLER. I was going to tell them what I thought it was.

Mr. PECORA. What was it?

Mr. KANZLER. I thought it was $16 a share, or something like that.

Mr. PECORA. "Sixteen" is the figure appearing here. Were you prepared to assure them that that liability rested upon the stockholders of the Group?

Mr. KANZLER. I do not know what I was prepared to assure them at that time. I would have told them that the double liability was $16 a share. That is what I thought it was, I believe. I do not recall. You are asking me to recall just what was in my mind at that time, and it is not very clear.

Mr. PECORA. I cannot ask anyone else what was in your mind.

Mr. KANZLER. I am giving you my best opinion.

Mr. PECORA. Can you not recall what you were prepared to tell the stockholders, if any of them heckled you on the matter of double liability?

Mr. KANZLER. I think I would have said it was $16 a share.

Mr. PECORA. What were you prepared to tell them on the subject of earnings after reserves?

Mr. KANZLER. I would have told them what we had done in the way of setting up reserves against accrued interest.

Mr. PECORA. What would you have told them if you had been heckled.

Mr. KANZLER. I would have told them that we had set up reserves against unpaid interest.

Mr. PECORA. What would you have told them about those reserves? Would you have told them that those reserves would have exceeded the earnings?

Mr. Kanzler. I cannot recall. I suppose so.

Mr. Pecora. Why didn't you tell them that anyway, without waiting to be heckled?

Mr. Kanzler. Because I do not think it represents a fair picture of the earnings. Those accruals were good accruals. I think the record will show that they were collected ultimately.

Mr. Pecora. What were you prepared to tell a heckling stockholder on the subject of selling to employees, had you been asked?

Mr. Kanzler. Well, there were some rumors about the street that we were selling a lot of stock to employees.

Mr. Pecora. Was it true?

Mr. Kanzler. No, sir.

Mr. Pecora. Had any stock been sold to employees?

Mr. Kanzler. Yes; some stock had been sold. I recall, when I was in the bank in 1927, we had sold some stock to the employees.

Mr. Pecora. Is that what you were going to tell them, about something that happened in 1927?

Mr. Kanzler. I do not remember just exactly what that note refers to, but it would probably have been as to whether or not we were selling stock to employees.

Mr. Pecora. Would your answer have been in the negative?

Mr. Kanzler. Isn't there a further memorandum there?

Mr. Pecora. No; not under that topic.

Mr. Kanzler. I would have told them that we were not selling any stock to the employees, and had no employees' plans at that time.

Mr. Pecora. What would you have told them on the subject of loans to officers?

Mr. Kanzler. That we had changed our bylaws some year and a half or two years before, which made it imperative not to lend any officer, as I recall it, and that any loans to directors had to have the consent of the board of directors.

Mr. Pecora. What would you have told a heckling stockholder on the subject of Group Co. statements?

Mr. Kanzler. I would have told him that in view of the fact that the banks and trust companies were kept on our books in the Group Co., at their capital structure, omitting their surplus and their undivided profits and their reserves, that that was simply a bookkeeping statement, and did not have any significance, and that, as to whether or not it showed an operating profit or loss, was simply a clearing corporation, for purposes of operation.

Mr. Pecora. In other words, you would have evaded telling this heckling stockholder——

Mr. Kanzler. I would not have evaded.

Mr. Pecora. Pardon me. Let me finish my question. I have asked you to tell us what you would have told a heckling stockholder about the absence of a Group Co. statement, and the answer you made suggests to me that you were not prepared, and would not have told a heckling stockholder, on that score, that a Group Co. statement would have shown a deficit. You would not, would you?

Mr. Kanzler. I think you will find in our statement that you put in evidence, that there is a Group Co. statement which it was proposed to put in intelligent form, because I think that keeping our group units on our books at their capital, regardless of their surplus and

undivided profits, was not a very practical way of keeping a statement for public consumption.

Mr. PECORA. Won't you please answer the question simply? I will repeat it. Had you been heckled by a stockholder at that meeting on the subject of the absence of a Group Co. statement, were you prepared to tell such a heckling stockholder that a statement so made would have shown a deficit?

Mr. KANZLER. Mr. Pecora, I do not recall exactly what was in my mind in making that note. It is a small note. It does not elaborate very much, and I do not know just exactly what the purport of that particular thing was, except I would have explained that the Group Co. statement, in itself, as it was kept, was a clearing statement, and had very little significance.

Mr. PECORA. What would you have told a heckling stockholder if he had asked you the question "Are they progressing?" What do you mean by that?

Mr. KANZLER. I would have told him they were very progressive. I would have talked about the liquidity we had achieved in the various units. Our chart showed that our units had passed many other competitor banks in unit cities, and I would have told him that decidedly our organization was fighting and was at war with the depression.

Mr. PECORA. Was that a stock phrase that somehow or other all officers and directors of the group learned to use, the one about fighting a war against the depression? The reason I ask is because both Mr. Lord and Mr. Patterson have used it in their testimony before the committee.

Mr. KANZLER. I think it was very generally used. I think Senator Couzens used it. I think we have all used it.

Mr. PECORA. What would you have told a heckling stockholder if he had asked you about the R.F.C.?

Mr. KANZLER. I would have told him, as I recall it, that we were borrowing, in the trust company, a certain amount, and in our banks a certain amount, and I think the total was something around $13,000,000.

Mr. PECORA. Why didn't you tell the stockholders that without waiting to be heckled on that subject?

Mr. KANZLER. It was published in the newspapers.

Mr. PECORA. How do you know your stockholders had read the newspapers?

Mr. KANZLER. Mr. Pecora, I can assume that they are reading the newspapers, and I did not think it was up to me to get up there and say, "Gentlemen, I want you to know that one of the important things is that we are borrowing from the R.F.C."

Mr. PECORA. In the notation you made on the last page of Exhibit No. 63, referring to this R.F.C. notation, you have three sets of numerals, one under the other, reading as follows: "13; 9.4; 35." What do they refer to?

Mr. KANZLER. I think those were the borrowings of the various banks from the R.F.C. I think those are the figures I just quoted.

Mr. PECORA. Had those borrowings been made at that time?

Mr. KANZLER. Oh, yes. Those were published.

Mr. PECORA. Borrowings of nearly $55,000,000—more than that.

Mr. KANZLER. No, sir; $13,000,000, I think it was.

Mr. PECORA. Here are the figures, 9.4 and, underneath, 35.

Mr. Kanzler. No: that is 3.5.

The Chairman. I thought the only borrowing was by the trust company.

Mr. Pecora. I do not see any point in the figure "35" unless my eyesight is failing.

Mr. Kanzler. The facts are, Mr. Pecora, that they were borrowing $3,500,000. I beg your pardon, Mr. Chairman?

The Chairman. I thought the only borrowing was by the trust company.

Mr. Kanzler. No, sir. Several of the other units were borrowing from the R.F.C. in lesser amounts. The substantial loan was to the trust company.

Senator Couzens. I am curious to know, Mr. Kanzler, why you did not apply for a loan in January or February of 1931, or January or February, of 1932, in view of the fact that you state that your conditions were much better in January 1933. I am curious, because you say you were progressively getting better, and over those years you had not asked for a loan. In view of the fact that you were progressively getting better, you asked for a loan?

Mr. Kanzler. Senator Couzens, the exposures in 1932 was very much greater than the exposure in 1931. You might have a better bank in 1932, but it would go down if a competitor bank went down, even though the year before, when all banks were in perhaps worse condition, none of them would have had a run, and you would have been able to survive. Conditions were getting awful in Michigan.

Senator Couzens. I understood they were, and that is the reason for your applying, in 1933, because of the condition of your competitive banks, rather than your own condition?

Mr. Kanzler. We were afraid runs would start. We had just had the experience in Port Huron. We had become, 100 percent, the only bank in Port Huron. We had become the only bank in Ionia. We were practically the only bank in Lansing. We had to take over the other bank in Lansing. As a matter of fact, in Michigan there was a system developing whereby the directors were passing by-laws, and under those bylaws they did not pay their depositors. They just decided that if somebody came in and said "Here, cash my check,' they would say "What do you want it for?" and if they did not think he should have had the money, they did not let him have it. Under those circumstances our banks were standing up there and paying 100 cents on the dollar to anybody that asked for it.

The Chairman. We will take a recess now until 10:30 tomorrow morning.

Mr. Pecora. The witnesses in attendance will return tomorrow.

(Whereupon, at 4:45 p.m., Thursday, Jan. 4, 1934, the subcommittee adjourned to meet tomorrow, Friday, Jan. 5, 1934, at 10:30 a.m.)

Committee Exhibit No. 64, January 4, 1934

(This exhibit appears only in the committee's copy of the transcript.)

(This exhibit is a mimeographed copy of a 6-page report addressed "To the Stockholders, Guardian Detroit Union Group," referred to by witness Kanzler in his testimony as a draft of report.)

To the Stockholders, Guardian Detroit Union Group.

The liquidity of our banking institutions has continued to improve, notwithstanding the conditions existing in the year 1932. The cash position of our banks and trust companies on December 31, 1932 totaled $100,079,745.74 in Cash and U. S. Government Securities against total deposit liabilities of $290,075,462.10. While bettering their liquid position, our banks have at all times continued to render constructive, helpful service to customers and have played an important part in encouraging industry in maintaining employment and in rendering distinct assistance and cooperation to their respective communities.

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies necessarily affected our earning power—for liquidity can be maintained only at the expense of profits. For the year ending December 31, 1932, the consolidated net earnings of the Group Co., banks, trust companies, and all other affiliated companies, after all expenses of operation, taxes, depreciation, and losses on securities sold, but before reserves, amounted to $1,316,952.00, equivalent to 85¢ per share on the 1,544,844 shares of stock outstanding (par value $20.00).

Dividends paid during the year amounted to $375,134.00. Conservative policies required discontinuance of dividends during the second quarter of 1932. Remaining earnings of $941,818.52 together with recoveries of $1,031,005.93 plus sums taken from capital, surplus and undivided profits accounts in an amount of $8,966,932.17 totaling $10,939,756.62 were transferred to Reserves.

The book value of group stock computed on the basis of the aggregate Capital, Surplus and Undivided Profits as reflected by the statements of the unit banks and trust companies, but not including Reserves, plus the net worth of the group and other affiliated companies at market prices of securities on December 31, 1932 amounts to $20.72 per share.

The policy of liquidating securities affiliates which was initiated in 1931 has been continued during 1932 in an orderly manner. During 1932 securities carried on the books at $1,712,821.68 were sold with a resultant net loss of $42,201.91. A consistent effort has been made to liquidate only the least desirable holdings. On December 31, 1932 the aggregate market value of securities owned by these companies was $5,688,797.10.

Rigid economies of operation were continued during the year with outstanding results. Expenses of operation for the year 1932, exclusive of interest paid depositors, were 25% less than for the year 1931. To effect further operating economies, the Grosse Pointe unit, the Guardian Bank of Grosse Pointe, was merged with the Guardian National Bank of Commerce on December 31, 1932.

There was a substantial increase in the number of shareholders during the last year. There are now 9,697 shareholders compared with 8,945 on December 31, 1931. Ownership of large holders of stock remained practically unchanged during the year.

Perhaps never in the history of banking has more been demanded of directors, officers and staff than in the past year. We wish to take this occasion to express our appreciation for the effort, loyalty and cooperation which has been shown. We also take this opportunity to thank our shareholders for their splendid support during the year 1932 which has resulted in increasing the amount of business directed to units of the Group. It is a privilege to call upon you during 1933 for a continuance of this confidence.

The preeminence of the Guardian Detroit Union Group, Inc. as a vital factor in the economic and financial existence of Michigan becomes impressive when one considers the outstanding men representing its affiliated institutions as directors. With these contacts there can be no economic development of Michigan's industries without a direct reflection of such prosperity within our institution.

Respectfully submitted.

(ERNEST KANZLER)
Chairman of the Board.
(ROBERT O. LORD)
President.

Consolidated balance sheet, Guardian Detroit Union Group, Inc., including banks, trust companies and other affiliated companies December 31st 1932

RESOURCES		
Cash in Vault and in Banks		$55, 664, 590. 06
U. S. Government Securities	$34, 332, 919. 57	
Municipal and Corporate Bonds	44, 812, 591. 42	
		79, 145, 510. 99
Stock of the Federal Reserve Bank		1, 161, 300. 00
Loans and Discounts		133, 731, 431. 67
Real Estate Mortgages		66, 552, 210. 79
Customers' Liability under Acceptances and Letters of Credit		925, 882. 51
First Mortgage Bond Trust Fund		1, 973, 947. 40
Banking Quarters and Other Real Estate		40, 460, 305. 85
Accrued Income Receivable and Other Resources		11, 086, 237. 29
Total Resources		390, 701, 416. 56
LIABILITIES		
Capital Stock	$30, 896, 880. 00	
Surplus and Undivided Profits	15, 342, 359. 12	
		$46, 239, 239. 12
Reserves		7, 088, 989. 91
Accrued Interest, Taxes, Etc		977, 041. 57
Liabilities under Acceptances and Letters of Credit		926, 875. 45
Mortgages and Bonds Outstanding		8, 330, 500. 00
Circulation		10, 620, 775. 00
Bonds Sold Subject to Repurchase		1, 291, 777. 82
Bills Payable and Rediscounts		31, 621, 617. 01
Deposits		276, 610, 576. 62
Other Liabilities		6, 994, 024. 06
Total Liabilities		390, 701, 416. 56

Note.—In the above statement all inter-company accounts have been eliminated. Among these are deposits $13,464,857.13 carried by affiliated companies and banks in the transaction of regular business with other unit banks of the group.

Aggregate resources and liabilities of banks and trust companies affiliated with Guardian Detroit Union Group, Inc. December 31, 1932

RESOURCES		
Cash in Vault and in Banks		$65, 874, 955. 62
U. S. Government Securities	$34, 204, 790. 12	
Municipal and Corporate Bonds	39, 064, 849. 67	
		73, 269, 639. 79
Stock of the Federal Reserve Bank		1, 161, 300. 00
Loans and Discounts		127, 094, 738. 24
Real Estate Mortgages		64, 894, 918. 27
Customers Liability under Acceptances and Letters of Credit		925, 882. 51
First Mortgage Bond Trust Fund		1, 973, 947. 40
Banking Quarters and Other Real Estate		28, 850, 730. 56
Accrued Interest Receivable and Other Resources		5, 834, 249. 12
Total resources		369, 880, 361. 51

LIABILITIES

Capital Stock	$26,000,000.00	
Surplus	14,755,000.00	
Undivided Profits	1,442,028.31	
		$42,197,028.31
Reserves		6,723,537.42
Accrued Interest, Taxes, Etc		1,014,135.43
Liabilities under Acceptances and Letters of Credit		926,875.45
First Mortgage Bonds Outstanding		1,905,500.00
Circulation		10,620,775.00
Bonds Sold Subject to Repurchase		1,291,777.82
Bills Payable and Rediscounts		15,125,298.33
Deposits		290,075,433.75
Total liabilities		369,880,361.51

CHANGING GROUP COMPANY BOOKS TO REFLECT BOOK VALUE PER SHARE

(1) Group Co. does not own all of shares of unit banks. Directors' qualifying shares and minority holdings must be excluded. Consequently, it becomes necessary to figure the exact portion of capital funds of each unit which belong to Group Co.

(2) Loans to subsidiaries other than banks and trust companies must be appraised on a basis of the liquidating value of collateral held by Group Co., no allowance being made for liabilities of subsidiaries direct or contingent, other than those to the Group Co.

(3) Stock of subsidiaries other than banks and trust companies to be carried on Group Co. books at book value of such subsidiaries. Each subsidiary to carry assets on its respective books at market value in case of securities and appraised value in case of other assets.

(4) Group Co. stock as well as other securities owned by Group Co. should be carried on its books at market value.

(5) In order that the books of the Group Co. reflect the condition outlined in the above four paragraphs, the carrying value of such assets must be adjusted at the end of each month by increasing or decreasing the reserve account with offsetting entry in the surplus or undivided profits account to reflect changes which took place during the month in each subsidiary.

(6) Operating under such a plan of accounting, it becomes necessary to write off against the Group Co. surplus account in similar amounts any sums written off against capital, surplus or undivided profits accounts at unit banks and trust companies.

(7) If such a method of operating the Group Co. books is adopted, it will result in present capital arrangement as follows at this time:

Capital	$30,896,000.00
Surplus and undivided profits	3,152,000.00
	34,048,000.00
Reserves	15,137,000.00

Book value of 1,544,844 shares, equals $22.05.

Adjusted balance sheet, Group Company, Dec. 31, 1932

RESOURCES

	Amount	Estimated loss	
Cash on Hand and in Banks			$527, 000
Loans to Subsidiaries:			
Peninsular Securities, Inc	$6, 803, 000	$5, 003, 000	
Fort Investment Company	2, 426, 000	1, 786, 000	
Guardian Holding Company	43, 000	43, 000	
Congress Corporation	8, 270, 000	7, 443, 000	
	17, 542, 000	14, 275, 000	17, 542, 000
Group Company Stock Owned	378, 000	238, 000	378, 000
Other Securities	146, 000		146, 000
Stock of Unit Banks & Tr. Co's			42, 197, 000
Stock of Other Subsidiaries	4, 896, 000	624, 000	4, 896, 000
		15, 137, 000	
Receivables			30, 000
Bonds Pledged			4, 967, 000
			70, 683, 000

LIABILITIES

Capital	30, 896, 000
Surplus and Undivided Profits	3, 298, 000
Total	34, 194, 000
Reserves	15, 137, 000
Bills Payable	16, 259, 000
Accounts Payable	126, 000
Borrowed Bonds	4, 967, 000
	70, 683, 000

NOTE.—Investment in Stocks of Unit Banks and Trust Companies shown above as $42,197,000 is carried at and is equal to the total Capital Surplus and Undivided Profits of such Banks and Trust Companies, but not including Reserves, and includes minority holdings and directors qualifying shares.

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